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MAKE IN INDIA POLICY OF 2014 AND THE SELF RELIANCE OBJECTIVE OF THE 1956 INDUSTRIAL POLICY: WILL THE OUTCOMES BE BASED ON INTRINSIC DIFFERENCES OR A TIME-CONTEXTUAL POSITIONING?

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ABSTRACT

The paper attempts to understand whether the current 'Make in India ' Policy of 2014 is a framework of new measures that aim at growth of Indian manufacturing and industry or is it only an extension or remix of the 1956 Industrial Policy that aimed at rapid industrial development of an agrarian India with a focus on self-reliance. The two policies have at their essence the growth of the country through a process of rapid industrialization. Yet, while the 1956 policy aimed at achieving industrialization in the country it focused on the role of the State as the key enabler. The 2014 policy on the other hand, bases its key strategy on using FDI to industrialize and grow the Indian economy. The 1956 policy led phase of industrialization was unable to provide the impetus to India's GDP growth beyond the 3.5 to 4 % rates, ultimately leading to the 1991 crisis-led reforms. It was only after 1991 that the GDP rate of growth picked up above the 5% resistance. This was contributed more by the push from the tertiary, services sector development rather than an outcome of the secondary, industry sector. The 'Make in India ' Policy of 2014 seeks to plug into the unexploited opportunity that remains to be exploited in the manufacturing part of our secondary sector. Its quick success is visible as India moves to become top Greenfield FDI destination in about a year of the launch of the policy initiative. The policy appears to focus on make in India and not as in 1956, 'Made by Indians'.

KEYWORDS

Make in India, self-reliance.

INTRODUCTION

India is today one of the fastest growing major economies of the world. India's gross domestic product (GDP) grew at 7.5% during 2015–16 while the growth rate of China was 7.1%. Brazil and Russia, two of the BRICS (Brazil, Russia, India, China and South Africa) countries, actually experienced a negative growth of GDP during the past year. The real GDP in the world at large grew at 2.8% in this period. Thus, India's growth rate in the past year, in comparison to the other major countries of the world, has been particularly gratifying. (Nayak, 2016)

India has emerged on top of the country-wise FDI list. For the first time it is ahead of China and the United States. A recent country-wise ranking for Greenfield investments shows India at number one in the first half of 2015, having attracted roughly $3 billion more than China and $4 billion more than the US. (Times News Network, September 30, 2015) The news validates the steps taken by the Narendra Modi Government, specially the Make in India 2014 policy with its key focus on attracting FDI into the country.

It was in the first decade of this century that the growth rate of the Indian economy moved to an altogether new high. For three years, prior to the world recession in 2008, the growth rate of GDP crossed the 9% mark. The only other major country which had sustained a growth rate of this magnitude and over a much longer period was China. Behind this high growth rate was the rapid growth of the service sector, driven by a boom that started with the information technology sector.

ROLE OF MANUFACTURING IN INDIA'S ECONOMY

The share of agriculture in GDP continued to decline, and from a figure of around 55% in 1950 it had declined to around 13.7% by 2013. This was matched by a steady rise in the share of income originating from the services sector. A key feature in all this has been that the sector-wise share of manufacturing in GDP has remained constant at around 15% to 16% over a long span. It should be noted that manufacturing is recognized to be the most dynamic of all sectors, and one that has the highest potential of generating jobs and therefore absorbing labour. The share of income originating in manufacturing as a fraction of GDP in China at around 32%, is double that of India. The relative constancy in the income originating in manufacturing in India has meant that employment has remained stagnant, and possibly declined, in the organised sector, giving rise to the phenomenon of "jobless growth."

We missed the opportunity proposed by William Arthur Lewis (1954) "that in such labour surplus economies, rural labour from agriculture could be extracted from the farm sector at a subsistence wage to work in industry and to contribute to physical capital formation and infrastructure". The basic framework of the Lewis development model relates to the idea of sectoral transformation. It deals with the shift of resources from the agricultural/traditional sector to the manufacturing/ non-traditional sector. After a period of focus on the growth objective, the importance of structural transformation in helping to push for further growth has again gained importance.

The gains from shifting resources from low productivity to high productivity sectors helps in increasing the economy-wide productivity. The contribution of Rodrik (2013) shows empirically that such fast growth has been observed in case of manufacturing, especially in economies having large gaps in actual and full employment levels.

The process of development was postulated to be one where labour in agriculture would, in due course, first shift to industry. The share of industry in GDP would slowly increase, pari passu with a decline in the share of income originating in agriculture, and finally there would be a greater generation of income from the services sector. However, the Indian experience has been quite different. We seem to have moved straight from agriculture to services, without adequate development of industry, and in particular, the manufacturing sector within industry. The possibility of employment generation via a healthy and robust growth of industry, and in particular manufacturing, has not occurred in India as we have missed out on this crucial stage in our development path.

STUDY QUESTIONS

1. How 'Nationalist' is the Make in India Policy?
2. Do we realize that the make in India Policy is not Made by Indians, but is led effectively by increase in FDI?
3. Is the strategic focus behind the Make in India Policy of 2014 similar to that of the 1956 Industrial Policy?
4. Is the renewed focus on manufacturing, decades after the structural transformation towards services, going to push the growth of the Indian economy?

Less than a decade after gaining independence and five years into planned development, in 1956, India aimed to industrialize its economy with concerted strategy, efforts and complete policy support. The Second five-year plan focused on the development of the secondary sector wherein by boosting its manufacturing and industrial development, the nation would move onto a high growth path. India since time immemorial has been an agro based country. Thus, a shift towards the industry and then towards the services sector would have been in keeping with the pattern observed in most developed nations of the world.

However, such a scenario did not develop in case of India, mainly because while the primary sector lost position and importance it was the services sector in terms of percent contribution to GDP and employment that grew. Rigorous policy measures for the development of the industrial sector turned out to be premature and were disastrous. The pace of growth of industry did not pick up and the agriculture sector also suffered. The manufacturing sector grew but did not justify the intense and all out efforts towards industrialization that were the key features of the 1956 Industrial policy.

POLICY CONTEXT AND BACKGROUND

The Make in India policy awakens nationalist sentiments at the outset. It suggests that the government is attempting to bring about a refocus on all that is Indian. The ruling party of India today is the BJP, whose ideology has always been considered to be at crossroads with that of the Congress.

The Congress was the ruling party in whose regime the 1991 New Economic Policy reforms - Liberalization, Privatization and Globalization were introduced and adopted in India. At first instance the nomenclature suggests that the Make in India policy proposes to revert the global openness of the 1991 policy. However, as we establish below, if anything, the 2014 policy only moves ahead with more of globalization, in an attempt to position the economy as a serious contender in the global market place.

However, going beyond the nomenclature brings out that the Make in India policy is not about cancelling the 1991 Liberalization, Privatization and Globalization policy measures. In fact, it is about strengthening the globalization of our economy by using FDI inflows along with more exports. It appears to be what it states: Make in India and not 'Made by Indians'. This appears to be the key difference between the 1956 and 2014 policies. The objective of Self Reliance formed a key driver of the Second Five year plan and hence, of the 1956 Industrial Policy. We need to understand that today the focus is not on making the nation self-reliant. It is all about more growth but using the unexploited potential of the manufacturing sector, while leveraging the attractiveness that India today presents to global investors, producers and markets.

In 1991 the then Prime Minister, Narasimha Rao had surmised that if after more than four decades of economic planning things had come to such a sorry state, then perhaps the time had come to check out a completely new track altogether, that is, to depart from the discredited licence permit raj and allow a much greater play of market forces. Wide-ranging reforms in the spheres of industry, agriculture and trade policy, with the general focus of allowing greater play of market forces, took the overall growth rate of the economy to about 6% in the decade of the 1990s.

The share of manufacturing sector in the GDP has however, been in the range of 12.43 to 17.39% for most of this period, since 1991. This suggests that the economy has not optimally used its resources in promoting manufacturing growth. Focus on this sector can give India the large benefits from unexplored areas. Growth of an economy away from full employment is always higher than that of an economy close to full employment. A similar strategy can give an advantage in this case as well. A country which has missed the prescribed transition from agriculture to manufacturing can likely benefit by going back and addressing the reasons that prevented the rapid growth of manufacturing and an increase in its contribution to the country's GDP. The Chinese success story with almost 32% share in GDP and at times double digit GDP growth rate also, motivates us to take the manufacturing route.

The Make in India policy has very wisely decided to focus on manufacturing sector growth to spearhead the India success story. As India has moved through the Hindu rate of growth of 3.5% to 4% (Krishna, 1980) to a GDP growth rate of 9% in this century, the economy transitioned from an agrarian economy to being dominated and led growth in the services sector. To sustain and strengthen such a growth rate the move to exploit the hitherto 'unexploited' potential of the manufacturing story appears to be a strategically correct policy move.

POLICY COMPARISON

The Industrial Policy Resolution of 1956 (IPR, 1956) was based on the mixed economy model and the ideology of a Socialist pattern of society. It was shaped by the Mahalanobis Model that was the base for the Second Five year plan, which suggested that emphasis on heavy industries would lead the economy towards a long term higher growth path. (Jadhav, 2005)

It stated that the State must play a progressively active and direct role in the country's industrial development. "It is essential to accelerate the rate of economic growth and to speed up industrialization and, in particular, to develop heavy industries and machine making industries, to expand the public sector, and to build up a large and growing cooperative sector" (IPR, 1956).

The 1956 policy aimed to lay down a foundation for increasing opportunities for gainful employment in order to improve the living standards and working conditions for the masses. It sought to prevent the growth of private monopolies and curb the concentration of economic power in the hands of small numbers of individuals in order to reduce existing disparities in income and wealth. The industrial policy aimed to correct the existing imbalances in the industrial structure. Thus, by laying emphasis on heavy industries and development of capital goods sector, it sought to balance the industrial structure that was till then dominated by labour intensive, small scale and cottage industries.

The IPR, 1956 specified that "besides arms and ammunition, atomic energy and railway transport, which would be the monopoly of the Central Government, the State would be exclusively responsible for the establishment of new undertakings in six basic industries-except where, in the national interest, the State itself found it necessary to secure the cooperation of private enterprise". (IPR, 1956) The remaining industries were available to private enterprise though here as well the role of the State would be progressive. (IPR, 1956)

The three Schedules A, B and C in IPR 1956 "divided the industries into groups according to the extent of government ownership and control. Schedule A included industries whose future development was to be the exclusive responsibility of the State. Schedule B consisted of industries, which were to be progressively State-owned and in which the State would take the initiative in establishing new undertakings, but in which private enterprise will also be expected to supplement the effort of the State. Schedule C included all the remaining industries, and their development was to be left to the initiative and enterprise of the private sector". (IPR, 1956)

Industrial undertakings in the private sector were to be subject to control and regulation in terms of the Industries (Development and Regulation) Act and other relevant legislation. In case both privately and publicly owned units co-existed in the same industry, the policy of the State was to give fair and nondiscriminatory treatment to both of them. The division of industries into separate categories was not meant to be in water-tight compartments.

The policy also included measures to improve their competitiveness of small scale and cottage industries. Their role in creating employment through intensive use of labour intensive methods along with traditional skills was important and complemented the heavy industry capital intensive strategy. The 1956 policy also, noted that a concentration of industries in certain areas has been due to the ready availability of basic infrastructure like power, water supply and transport facilities. To promote the balanced economic development of the country the State planned to extend these facilities to areas that were lagging behind, especially in places where there was greater need for creating opportunities for employment and where the basic minimum infrastructure was in place. "It was stated that only by securing balanced development, of the industrial and the agricultural economy in each region, can the entire country attain meaningful growth and higher standards of living for its people". (IPR, 1956)

Reserving items for government control and ownership was not the only kind of reservation in the industrial policy. In 1967 the government began a policy of reserving the manufacture of certain products exclusively for small producers. Once a product was placed on the Small scale industry (SSI) list, no new medium or large enterprises were allowed to enter. Panagariya (2004) points out that "the bulk of SSI items were labor-intensive products, in which India presumably had a comparative advantage". These reservations created inefficiencies as they reduced the motivation for SSI plants to produce high-quality products which met global standards. It was only in the twenty-first century that de-reservation of SSI industries began in earnest.

The license regime put in place in 1956 restricted the need and ability of Indian firms to be productive. The resulting inefficiencies in Indian manufacturing by way of high costs and low productivity were a natural outcome of excessive controls. Some measures to deregulate started in the 1980s but it was only in 1991, when the Indian economy was hit by a balance of payments crisis and had to resort to borrowings from the IMF and such international organizations that the new economic policy was laid to ground. In 1991 the government signaled a systemic shift to a more open, market oriented economy with a larger role for the private sector including foreign investment. (Ahluwalia, 2002) Almost all industrial licensing was removed and by 1994 only one-sixth of manufacturing output was licensed.

The 1991 balance of payments crisis, also led to major changes in trade control measures. Non-tariff barriers were reworked and rationalized tariff rates were brought down, the average final goods tariff rate on manufactured products fell from 95% to 35% between 1991 and 1997(Harrison et al., 2011). According to Khandelwal et al (2010), 26 import licensing lists were replaced with one "negative" list of items.

Another key change was the control of foreign direct investment. As Sivadasan (2009) documents, prior to 1991 foreign ownership was restricted to less than 40% in most industries. It was only after the 1991 crisis that foreign ownership stake of up to 51% was allowed for a group of industries and the "restrictions on brands, remittances and imported content were relaxed" (Jadhav,2005*)*. The presence of FDI on Indian soil may have generated productivity spillovers from foreign-owned plants to competing domestic plants or to vertically related Indian suppliers/buyers and hence, contributed to higher GDP growth rates post-1991.

Prime Minister Narendra Modi launched the Make in India initiative on September 25, 2014, with the "primary goal of making India a global manufacturing hub, by encouraging both multinational as well as domestic companies to manufacture their products within the country".

(Make in India Policy, 2014) Led by the Department of Industrial Policy and Promotion, the initiative aims to raise the contribution of the manufacturing sector to 25% of the Gross Domestic Product (GDP) by the year 2025 from its current 16%.

In the Make in India policy 25 sectors have been targeted but there is a basic philosophical difference in the categorization into Schedules in 1956 and key sectors in 2014: while these 25 sectors are those identified to show tremendous potential to grow they are meant to receive support from government policies and measures to grow fast and not as per 1956 reflect the degree of ownership and control by the government. The ultimate objective is to make India a manufacturing hub for key sectors. The government seeks to invite and attract companies across the globe are to invest, set up factories and expand their facilities in India.

RATIONALE FOR THE FOCUS ON MANUFACTURING LED GROWTH IN INDIA

Manufacturing comprises "Escalator industries"; the productivity of labor in these lines tends to converge to the frontier (Rodrik 2013). Employment in the Manufacturing Sector in most of the developed nations crossed peaks of more than 30%, at times touching 40%(Germany), before 'deindustrialization' and services sector domination took over. However, in case of India it started declining soon after peaking at only 13% around 2002.

The benefits of enhanced resource productivity were thus, prematurely foregone. The focus on manufacturing led growth in the 2014 policy therefore, seeks to capture this 'lost' opportunity. When countries like USA, Britain and Germany started to transition from manufacturing and industry towards more employment growth in the services sector, their per capita incomes had already crossed $9,000-11,000 (at 1990 prices). In emerging market economies, manufacturing has begun to shrink at much lower capita incomes: while Brazil's deindustrialization began at $5,000, China's at $3,000, and India's began at only $2,000. (Rodrik, 2013) The transition towards service sector employment in India was thus, clearly premature. There thus, remains a lot of untapped potential in labour and other resources to make significant contributions to the growth in productivity and income of the nation. It is thought that by developing the hitherto less than optimal potential of manufacturing the overall growth of India can be easily increased.

In case of India the advantages of manufacturing led growth is more because a large part of the workforce consists of unskilled labor; those are employable mostly in agriculture and manufacturing. The country faces a challenge to employ the burgeoning labour force, wherein manufacturing offers a clear unemployment solution. At present of the 474 million Indians who are gainfully employed, only 100 million are engaged in manufacturing jobs compared to 232 million who work on farms and 142 million employed in the services sector. In China's growth story manufacturing sector performance has been a key factor and has been further strengthened by the replacement of inefficient state-owned enterprises with new, more efficient private firms (Hsieh and Klenow, 2009).

MAKE IN INDIA POLICY 2014 AND SKILL DEVELOPMENT

The policy focuses on manufacturing led growth while using India's highly talented and skilled manpower to create world class zero defect products.

It emphasizes that India offers the 3 'Ds' for business to thrive— democracy, demography and demand. A good part of the people is tech-savvy and educated and the legal and IPR regime is now sufficiently developed. India is a big, emerging market due to large numbers, high GDP growth and a growing culture of consumerism. Availability of skilled and unskilled labour at competitive rates continues to be an asset. It is important to use the vast pool of unskilled workers for which many companies come to India. It is difficult for an underdeveloped nation to use relatively skill-intensive activities as the launching pad for sustained growth, foregoing its inherent advantage of large numbers of unskilled labour force. (Kochhar et. al., 2007).

This is because most service subsectors like information technology, business process outsourcing or financial services (precisely the high productivity, high growth subsectors, for the most part), have a limited capacity to make use of India's most abundant resource, unskilled labor. This is perhaps why the share of employment from services sector has not risen at par with the share of output from services.

The analysis suggests that along with Make in India the Prime Minister's other goal of "Skilling India" is no less important and in fact the two complement each other. It is "Skilling India" that has the potential to make India a Lewisian economy with respect to more skilled labor. Higher economic growth would be enabled with the employment of both skilled and unskilled labour force" (Economic Survey, 2014-15). Make in India, if successful, would also, enable India to make a transformation for increasing the productivity of unskilled labor.

The government aims to ensure that the benefits of fast-growing sectors extend to large sections of the labor force; for this the policies focus on creating a match between the skill requirements of the expanding sector and the resource endowment of the country. For example, in a labour abundant country such as India, the converging sector should be a relatively low-skilled activity so that more individuals can benefit from convergence. This is why the focus on manufacturing is a good strategic measure.

To develop a skilled work force 'Skilling India' initiative aims to start skill development programs, especially for people from rural areas and for the poor in urban places. Skill certifications would be given to standardize the training processes. Over 1000 training centres are planned across the country, and persons aged 15-35 years would get high quality training in key areas such as welding, masonries, painting, nursing to help elder people.

EASE OF DOING BUSINESS TO ATTRACT FDI

The Make in India policy aims to leverage India's strategic advantages for FDI in terms of providing access to resources, read labour, and access to big markets, for increasing sales. The main drive in the policy appears to be through creating a conducive and attractive environment for FDI. The FDI policy has allowed 100% FDI in most areas, including erstwhile highly controlled sectors like Railways, Defence and Pharmaceuticals. In this context the emphasis on developing infrastructure and regulatory environment to facilitate the ease of doing business in India is of critical importance.

According to World Bank, India ranks 130 out of 189 in 2016 while it ranked 142 out of 189 countries in 2015 terms of the ease of doing business. The measures undertaken by the government in this regard have made an impact, though much more remains. Infrastructural development, tax concessions like increased investment allowance and lower corporate rate of taxation and set up of special economic zones, special country zones, establishing of economic corridors linking key development hubs of the country and Industrial Parks. "National Investment & Manufacturing Zones are being developed, where manufacturing facilities, along with associated logistics and other services and required infrastructure will be located"**. (make in India policy, 2014)**

The infrastructure development is being supported by regulatory changes, whether in bringing about labour reforms or in improving transparency through e-governance measures. Labour reforms do not yet incorporate merit base hire and fire policy but transparency is sought to be brought in: b**y** eliminating human subjectivity in selection of units for Inspection, introducing a Labour Identification Number(LIN), making Provident Fund account portable, etc. A stronger Intellectual Property Rights (IPR) regime is being put in place, including improved infrastructure for fast paced IPR registrations.

The efforts to Digitize India also converge to create a better business environment in the country. The application process for Industrial Licence and Industrial Entrepreneur's Memorandum has been made easy and the process is available online 24*7. The validity period of the Industrial Licence and security clearance from Ministry of Home Affairs has been increased. "The process of registration with Employees' Provident Fund Organization and Employees' State Insurance Corporation has been made online and real-time. The Department of Industrial Policy and Promotion has advised Ministries and State Governments to simplify and rationalize the regulatory environment through business process reengineering and use of information technology. 14 Government of India services have been integrated with the online single window eBiz portal". (Make in India policy, 2014)

Above all this, the key success factor lies in the new mindset: Government in India has always been seen as a regulator and not a facilitator. The current initiatives intend to change this by bringing a paradigm shift in the way Government interacts with various industries.

Explicitly, additional import restrictions are also not significant or visible. It appears that through supporting Make In India initiatives the market need for imports will go down. Imports into any country arise because either they are competitively priced, of a better quality or in product areas where the domestic production does not exist. Through the Make in India policy with its focus on manufacturing growth, it is expected that we would be able to counter each of these three reasons effectively as far as the manufacturing sector is concerned and thereby efficiently manage our import bill.

Further, manufactured goods import in certain product categories can be easily substituted by domestic production. In case of electronic products, for instance, India imports 65% its requirements. This may result in the country's electronics import bill to even surpass its oil import expenses by 2020. The availability of resources and technology is not a limiting factor in such an industry. Especially with 100% FDI even foreign manufacturers can produce in India for this rapidly growing industry and easily curtail import costs, leaving foreign exchange reserves and resources to meet critical needs and imports of goods like oil wherein India does not have a competitive advantage.

CONCLUSION AND PROSPECTS FOR THE NEXT DECADE

Dun & Bradstreet, a provider of global business information, knowledge and insight, in their publication, Manufacturing India 2025, provide forecasts of the overall economy and manufacturing sector by 2025. "They project that the Indian economy is expected to reach close to US$ 7 trillion by 2025". (Dun & Bradstreet, 2016)

"The strong accent on infrastructure and institutional capacity creation by the current government is expected to be the major growth driver for the Indian economy in the next decade. The Government's strong intent to revive India's manufacturing sector should be able to crowd-in private investment in the coming years. While services sector will continue to drive India's growth momentum, the industrial sector is expected to witness double-digit growth and its share estimated to increase from 31.4% in FY15 to 37.6% in FY25. The '*Make in India'* initiative of the Government is expected to be a vital component in India's quest for establishing itself as a global manufacturing hub".

The implementation of the "*Make in India*" agenda could see India not only being the topmost preferred FDI destination in the world but also, create the desired outcome of the Make in India initiative: global recognition and international competitiveness for Indian manufactures.

It is important to note that the 2014 make in India policy has focused on developing an infrastructure and business environment that takes the growth of manufacturing product and productivity forward. The policy is unlike the 1956 policy in that it does not emphasize on the objectives of Self-reliance and not 'limiting concentration of wealth to a few hands'. It also is pro-manufacturing across most manufacturing industries. The resource availability in 2014 is very different and vast than in 1956. A focus on the strategic 'commanding heights' and the heavy industry model was not adopted. In fact, the current policy aims at more growth across the sector, while incorporating the necessary development of infrastructural industries like transportation and telecom.

In the limited time period since launch the policy appears to meet the aspirations of the government and the people. We hope to look forward to faster growth of Indian manufactured goods and dream to out compete China in the coming years in the global market place.

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