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CONTENTS

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STATEMENT OF THE PROBLEM
OBJECTIVES
HYPOTHESIS (ES)
RESEARCH METHODOLOGY
RESULTS & DISCUSSION
FINDINGS
RECOMMENDATIONS/SUGGESTIONS
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MAKE IN INDIA AND FINANCIAL INCLUSION

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ABSTRACT

Make in India campaign is more to do with rationalization of industrial regulations and an attempt to increase the contribution of the manufacturing sector to the National Income. The link between financial inclusion and Make in India campaign seems remote but it may have spillover effects. The level of growth of any economy, its culture, social attitudes, ability to accept changes, human endowments, historical accidents and many other factors would decide whether any macroeconomic policy would work for that nation or not. It may get success in one nation it may not in the other. The New Economic Policy 1991 drew attention of many as the terms such as Liberalisation, Privatisation and Globalisation were new then. Everybody, whether capitalist or the socialist, was curious to know what would its impact be on the Indian Economy. It took almost a decade to understand the merits and the demerits of the New Economic Policy. The first part of my paper deals with - is this campaign new or did it even exist before without a brand name. It also discusses the economic basis of the campaign. The second part of the paper discusses the much sought after financial inclusion and tries to find if even that existed before. The third part of my paper deals with the possible opportunities associated with and challenges to this campaign. The paper identifies the Make in India campaign to be an aggressive version of the New Economic Policy, 1991. The opportunities and challenges associated with the Make in India Campaign are inferred on the grounds of the past experiences of the NEP, 1991. Hence this paper may be taken as a preliminary exercise towards the same.

KEYWORDS

priority, inclusion, infrastructure, GDP.

1.1 INTRODUCTION

The production method of GDP identifies three contributors to the GDP viz, the agricultural, manufacturing and the tertiary sector. Calling any economy to be developed or underdeveloped depends not only on its GDP as a percentage of the GDP of the US but also on many other parameters other than the GDP included in the construction of the Human Development Index developed by the UNDP. Among many other indices of development, a shift away from the agriculture to manufacture is a sign of development. So a nation to be categorized to be developed must show high levels of the GDP and that can, among other possible ways, be achieved if the manufacturing sector performs well.

A comparison between the advanced and some of the underdeveloped nations of the world shows heavy dependence of the underdeveloped nations on the agricultural sector. For advanced nations not only is their dependence on the agricultural sector low, in terms of employment provision, but even in terms of its contribution to the GDP. On the other hand, the manufacturing and services sectors play vital roles. So for a nation to be advanced in terms of technological richness, infrastructural soundness and income levels it must move away from the traditional sectors of the economy such as the agriculture to the manufacturing. This manufacturing sector is demanding. One of the most important prerequisites for the manufacturing sector to perform is a well-developed infrastructure both economic and social. Economic infrastructure includes roads, bridges, banking and financial institutions while the social infrastructure includes education and health. Manufacture needs a well-developed network of financial institutions and a strong capital market. Without a network of good financial institutions, that provide capital, manufacturing growth cannot be thought of. The establishments of IFCI in 1948 and ICICI in 1955 are examples to support the same.

Financial institutions can make available all that can be only when these institutions reach the remotest. Some sections of the community may wish to access the services of these financial institutions but they may find it difficult so to do on account of lack of availability of these institutions in these areas. The extension of the services of financial institutions in remote areas and to neglected sections of the community could help the economy in two ways – a) Mobilizing resources that were hitherto not mobilized and b) Getting to know those who could set up a venture, if supported financially.

The 'Make in India' campaign was declared by the incumbent government with the intent of popularizing manufacture and innovation in India. This paper attempts to study a link between economic growth and 'Make in India campaign' and figure out the role of financial inclusion, if any, in the same.

OBJECTIVES OF THE PAPER

The following paper aims at attaining certain defined objectives. The Make in India Campaign has brought with it a lot of expectations among the Indians. The industry and the aspiring students of different academic institutions look at this campaign as an opportunity worth capitalizing. This campaign has created a very positive picture about the future of the Indian Economy.

The following is my miniscule contribution to assess these and many other related issues. The objectives of this paper are mentioned below -

1. To clearly understand what the campaign stands for.
2. To identify the sectors to which this campaign is applicable.
3. To find the economic basis of the campaign.
4. To identify if such an attempt, but in some different name, existed in the past.
5. To understand financial inclusion clearly.
6. To identify a possible link between Financial Inclusion and Make in India.

REVIEW OF LITERATURE

MAKE IN INDIA CAMPAIGN

Make in India is all about making India a very attractive destination for production whether for the companies incorporated in India or outside India. Make is India is both to boost the production of the domestic companies as well as inviting the foreign companies to India and creating an atmosphere conducive to their existence for production in India.

It is said that the manufacturing companies to remain in the host nation, the said nation must create a case for their existence. This is called the 'Ease of doing business'. The Make in India campaign aims at creating all such ground wherein business can be done with ease in India.

The campaign that was launched in September 2015 by the Prime Minister focuses 25 sectors of the Indian Economy. These sectors are given in the following table:

TABLE 1: SECTORS PROMOTED UNDER MAKE IN INDIA CAMPAIGN

Title of the sector	Title of the sector	Title of the sector
Automobiles	Media and Entertainment	Electronic systems
Automobile components	Mining	Food processing
Aviation	Oil and Gas	IT and BPM
Biotechnology	Pharmaceuticals	Leather
Chemicals	Ports	Space
Construction	Railways	Textiles and Garments
Defence manufacturing	Renewable Energy	Thermal Power
Electrical machinery	Roads and highways	Tourism and Hospitality
xxxxxxxxxxxxxxxxxxxxxx	xxxxxxxxxxxxxxxxxxxxxx	Wellness

(Source: Make in India: Illusion or Possible Reality Project – Dr. T.V. Ramanna, Asst. Professor, Dept. of Economics, Andhra University – International Journal of Academic Research, Vol. 2- Issue 2(5), April-June, 2015, Page number – 14)

THE ECONOMIC BASIS

Many macroeconomic theories underline the importance of aggregate demand as well as aggregate supply in economic growth. For creation of aggregate demand, there needs generation of income which is possible only when there is production. Efforts to produce more generate employment.

Keynesian theory of Investment Multiplier establishes a relationship between changes in investment and the corresponding change in the income. This theory of investment multiplier emphasizes the role of Marginal Propensity to Consume (MPC) in determining the level of income of a nation. The theory states that the higher the MPC higher would be the income of that nation.

So for economic growth to take place there must be rise in investment coming either through the government or through the private sector.

The launching of such a big campaign called 'Make in India' has no other target than those spelt out by the economic theories. This campaign rightly aims at bringing with it the following:

a. Creation of employment opportunities
b. Enhancement of GDP
c. Alleviation of Poverty
d. Increasing capital formation by way of attracting foreign investment and enabling technology transfer
e. Boosting manufacturing in India along with setting of high quality standards in manufacture.

DID MAKE IN INDIA EXIST BEFORE?

A question arises, were these objectives never set before. Was the Make in India campaign never thought of before at all? An investigation into this reveals that may be this existed before but aggression about the same is seen now.

A number of papers reveal that the 'Make in India' campaign was christened to be Make in India by this government but it existed in India even prior to this but without a title. The references about the lament of Dadabahi Nauroji over the exploitation of the colonies, production of the first iron plough by Laxmanrao Kirloskar and the setting up of the first steel mill in India by Sir Jamshedji Tata (Satish Deodhar, 2015) endorse the existence of entrepreneurship in India and the story of Make in India evolved then. The sustainability of the same was doubted by M.G. Ranade.

The Industrial Policy resolution of 1991 deviates sharply away from the Industrial Policy Resolutions of 1948 and 1956 in terms of Industrial regulations. The tightly governed manufacturing sector was freed by the New Economic Policy, 1991.

The industrial policy 1991 aimed at removing the bureaucratic controls over industry. It introduced a policy of liberalization that aimed at integrating the Indian Economy with the world economy.

The act of liberalization involved making alterations in many policies and acts pertaining to industrial development. The alterations pertained to foreign direct investment, Monopolies Restrictive Trade Practices Act (MRTP), industrial licensing etc. Requirements of compulsory licensing were relaxed for many industrial activities and the number of industries reserved for public sector was reduced.

This policy transformed the Indian Economy from a tightly governed to a liberal one and India progressed from a low rate of GDP growth to high rate of GDP growth. So market expansion is a thing of the past. Make in India campaign can be presumed to be an improvement of the New Economic Policy, 1991.

COMPARISON OF INDIAN ECONOMY WITH SOME ECONOMIES OF THE WORLD ON IMPORTANT PARAMETERS

Intertemporal Comparison of GDP - GDP by Industry Origin and Contribution of the Manufacturing Sector to India's Exports

TABLE 2: COMPARISON THE INDIAN ECONOMY WITH SOME ASIAN NATIONS

SR. NO.	1990	2000	2010	2015
		INDIA		
1.	3,26,60,80,14,285	4,76,60,91,48,165	17,08,45,88,76,829	20,73,54,29,78,208
2.	16.2	15.3	14.8	16.1
3.	0.1	0.8	1.6	2.1
		CHINA		
1.	3,58,97,32,30,048	12,05,26,06,78,392	60,39,658,508,485	1,08,66,44,39,98,394
2.	32.5	31.9	31.9	30.1
3.	1	3.5	4	2.3
		THAILAND		
1.	85,34,31,89,320	126,392,308,497	3,40,92,35,71,200	3,95,28,15,80,952
2.	27.2	28.6	31.1	27.7
3.	2.9	2.7	4.3	2.0
		JAPAN		
1.	31,03,69,80,99,973	47,31,19,87,60,271	54,98,71,78,15,809	41,23,25,76,09,614
2.	25.9	21.2	19.7	18.6
3.	0.1	0.2	0.1	0

(Source: World data bank – databank.worldbank.org – World Development Indicators (Serial numbers in the table above express - 1. GDP in Current $ terms 2. Contribution by the Manufacturing sector to the GDP 3. Net inflows of FDI as a % of GDP)

The GDP, at current prices, by industry origin reveals that the relative share of services sector in the Indian GDP has steadily risen from 33.25 per cent to 57.03 per cent between 1951 and 2014. During the same term the relative share of the agriculture and allied services has gone down from a high of 51.81 per cent to 18.20 per cent. But the manufacturing sector has not shown any significant rise or fall in its share in the Indian GDP, between 1951 and 2014. It has remained more or less the same between 12 and 17 per cent. It is this that a nation needs to improve so that it is developed. The high share of manufacturing sector in the GDP enables a nation to export manufactured goods on a large scale.

In case of India the contribution of the manufacturing sector to its exports is substantial but when compared with other nations of the world it is not satisfactory.

TABLE 3: COMPARISON BETWEEN NATIONS OVER CONTRIBUTION BY THEIR MANUFACTURING SECTOR TO THEIR TOTAL EXPORTS

Nation	1990	2000	2010	2015
India	70.7	77.8	63.8	70.6
China	71.6	88.2	93.6	94.3
Thailand	63.1	75.4	75.3	77.8
Japan	95.9	93.9	89	88
Israel	86.6	81.9	93.3	92

(Source – World data bank – databank.worldbank.org – World Development Indicators)

The data reveals that India's exports carry share of manufactured sector that stands at the lowest among a mix of the nations mentioned above. China's exports constitute 94% manufactured goods. The major reason behind this is the value addition of the manufacturing sector to the GDP of the respective nations.

When compared with china we get to know that the contribution of the manufacturing sector of China to its GDP is substantial and hence the Indian economy stands much behind that of the Chinese in terms of manufacturing sector. The absolute value of the GDP of China is also much bigger than that of India's.

And one must note that the GDP of India is much lower than the GDP of Japan as well. So even if Japan's manufacturing sector contributes 18.6% to its GDP, this 18.6% itself is a substantial amount.

The net FDI inflows as a percent of GDP has been the same for India and China but as stated earlier the GDPs of the two nations are not comparable and hence China has a greater flow of FDI than India has.

These factors create a strong case and a good economic basis for some campaign like the Make in India.

FINANCIAL INCLUSION

Financial system of any nation consists of Financial Markets, Institutions and Instruments. Financial institutions are the purveyors of credit. They are the ones who would make the deficit saver meet a surplus saver. In this way they balance the financial spread in the economy.

The need of any developing economy is to see that every possible resource is saved and is made available for the development projects in the country. But it so happens that the resources remain untapped on account of a variety of reasons.

The historical episodes reveal that even after 22 years of independence credit was not made available to the most primary sectors of the economy, defined to be the priority sector, though we went on arguing that the Indian economy was an agrarian one then.

So just like Make in India, which existed before but never ever was stressed as much as it is being today; financial inclusion is an old idea that was reiterated in 2005.

Varied definitions of financial inclusion connote financial inclusion to be a process of offering access to financial products and services to all and especially those neglected hitherto of the same. They could be weaker sections of the community and even low income groups. The Report of the committee on financial inclusion headed by Dr. C. Rangarajan defines financial inclusions as –

"The process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost."

The report rightly points out "The ideal definition should look at people who want to access financial services but are denied the same. If genuine claimants for credit and financial services are denied the same, then that is a case of exclusion."

The report refers to the 59th round of survey carried out by the National Sample Survey Organisation to highlight the extent of financial exclusion. The findings of the Organisation are serious and create a case for financial inclusion.

But financial inclusion was tried in the past as well. The efforts of the government included -

a. The Nationalisation of Banks, on the pretext of non-supply of credit to agriculture, small scale industries, exports etc., in July 1969,
b. Formalization of the priority sector in 1972 on the recommendations of the Informal Study Group on Statistics and consequently fixing of priority sector lending targets at 33.33% in November 1974.
c. Based on the recommendations of the 'Working Group on Modalities of Implementation of Priority Sector Lending' the revision of target for the priority sector lending to 40% of the aggregate bank advances by 1985.
d. Introduction of 'Lead Bank Scheme' on the recommendations of Nariman Committee in December 1969, to carry out an Area Approach in enabling the public sector banks discharge their social responsibilities.
e. Setting up of the Regional Rural Banks in 1975 with the intent of providing the rural sector with a mature institutional source of credit.

So financial inclusion is a thing of the past with its roots in 1960s.

FINANCIAL INCLUSION - POST 2014

A number of schemes were introduced by the newly elected government to bring in financial inclusion.

1) The progress report on the Pradhan Mantri Jan Dhan Yojana (PMJDY) highlights how the current government has been successful in carrying ahead the much needed financial inclusion. The accounts opened under the scheme as on September 21, 2016 stood at a total of 24.61 crore and these accounts were successful in generating an amount aggregating to Rs 43,347 crore. Overdraft (Sanctioned/Disbursed) under PMJDY as at the end of August 2016 stood at Rs 288.14 crore.
2) In addition to the PMJDY another endeavour of the current government is that of MUDRA **(Micro Units Development & Refinance Agency Ltd.),** a non-banking finance company registered with the RBI with an intent of providing financial assistance to the micro enterprises through banks and other financial institutions. This would benefit the micro/small business units that are engaged in manufacturing, trading and service provision.

HAS FINANCIAL INCLUSION HELPED?

Speech delivered by Shri P. Vijaya Bhaskar, Executive Director, Reserve Bank of India on "Financial Inclusion in India – An Assessment'' on December 10, 2013 reveals that a deliberate attempt on financial inclusion has yielded results. The speech highlights the progress that occurred between 2005 and 2013. The same includes –

a. Manifold increase in number of branches of scheduled commercial banks not only in urban but rural areas as well.
b. The number of Basic Savings Bank Deposit (BSBD) Accounts rose considerably.
c. An overdraft facility to the BSBD account holder was advised by the RBI.
d. Issuance of Kisan Credit Cards, to meet the production credit requirements of the farmers in a timely manner, remained slow but steady.
e. The number of General Credit Cards issued and credit provided under the same rose steadily. GCC scheme was introduced to provide hassle-free credit to banks' customers on assessing the cash flows of the customer and without demanding any security against the said advance. The purpose of credit taken would not be considered and the credit would take the form of cash credit or overdraft.

MAKE IN INDIA AND FINANCIAL INCLUSION – POSSIBLE LINK?

Growth needs assistance in the form of capital. One of the only two possible links that may be established between the Make in India campaign and financial inclusion could be that of the latter helping the former with capital while the micro, small units being taken care of by the domestic untapped resources, the medium and large scale manufacture can be helped by domestic capital markets and the flow of direct investments from abroad.

The second link comes in the form of the positive effects of the Make in India campaign. The campaign would create employment opportunities enhancing the capacity of the people to save.

The Make in India campaign both requires finance and gets in finance (capital from outside). The financial inclusion programme of the government also looks at raising finances from those who can and providing finances to those who need. So the similarity between the two is about the raising of the financial resources much needed for manufacture.

The money collected from all possible sources would definitely enable more productive activities to take place. Hence financial inclusion would promote the basic aim of the Make in India campaign i.e. enhancing manufacture. Both the Jan Dhan Yojana as well as the Mudra Bank scheme would cater to the requirements of enhancing manufacture. While the former would mobilize resources and allocate them to the needy for productive purposes while the Mudra loans would in fact help the micro units to get started as well as get established.

OPPORTUNITIES

The opportunity for the Government could be to use the Make in India campaign for financial inclusion. The government could create employment opportunities through this campaign leading to creation of income to those who were struggling for the same. This in turn would increase their abilities to save.

There is possibility of technology transfer through this campaign. With this the obsolete techniques of production can be replaced and the productive capacity of a manufacturing unit would go up.

Foreign Direct Investment would supplement the internal sources of financing. This would add to capital and capital formation would go up.

CHALLENGES

While commenting over the Make in India campaign in Bharat Ram Memorial lecture the then Governor of the Reserve Bank of India Dr. Raghuram Rajan pointed out the possible challenges that India may face in making this campaign work well. I subscribe to the possible bottlenecks this campaign may face. They include -

a. Linking every corner of India with reasonably good infrastructure in the forms of roads, railways, ports and airports. In the absence of this the markets would not be well linked.
b. Ensuring undisturbed supply of water, power and other raw material that too at competitive prices.
c. Well execution of financial inclusion for provision of financial assistance to carry out the projects in time. This also requires a very good support of network of electronic communication.
d. Both the sets of infrastructure viz, the economic and social will have to be present in good shape. The former would involve roads, bridges, banking facilities etc while the latter would require facilities in the form of hospitals and academic institutions.
e. Human capital will have to be trained because the levels of skills and academic achievements would have to suit the requirements of the manufacturing firms. 'Vision 2030' created by FICCI's Education Committee on Higher education in India reveals certain facts. They include – only 10% of the general graduates and 25% of engineers and MBAs are employable. While no Indian institute features in top 200 institutes of the world only 4 universities are featured in 400 universities of the world. Eleventh five year plan document – Volume II – on Social Sector - Chapter – I- page 23 reveals that from out of the then NAAC accredited colleges only 9% of the colleges and 31% of the universities were rated as 'A' grade and the rest fell in 'B' and 'C' categories.
f. The social set fabric of our nation must remain smooth so as to facilitate continuous production. It may be disturbed because of the unrest within caused due to clashes on religious, class and territorial grounds.
g. If Make in India aims at manufacture for exports and thereby export led growth, then it has to look at the competition it would face from the Made in China campaign launched by China.
h. A World Bank group flagship report on 'Doing Business 2016 -Measuring Regulatory Quality and Efficiency' identifies what measures are to be taken to do business with ease. Point (a) discusses the already exiting and point (b) discusses the newly added by this report –
    a. Procedure, time and cost needed to complete all formalities to build warehouse, get connected to electrical grid, to transfer property, to resolve a commercial dispute etc.
    b. Reliability of electricity supply, transparency of tariffs and price of electricity, Quality of the land administration system, Quality of judicial processes etc.

Based on these parameters, the rankings benchmarked to June 2015 reveal that among 189 nations surveyed, India stands at 130 much below the rankings the Chinese, Japanese or Thais have in the Ease of Doing Business.

CONCLUSIONS

The NEP of 1991 opened the gates of the Indian economy for the outside world. The policy of Liberalisation, Privatisation and Globalization drove Indian economy away from a very low rate of GDP growth to double digit rate of growth. The financial system was strengthened by introducing financial sector reforms.

It is rightly pointed out by Dr. Raghuram Rajan in his Bharat Ram Memorial Lecture on December 12, 2014 that any signs of growth will attract foreign capital. The policy makers will have to assess the possibility of further growth in Indian and the world economy against the available competitors who can fulfill these growth requirements because if the foreign capital is not managed properly it would cause negative effects such as credit and asset price rise along with overvaluation of the exchange rate.

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