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REVITALIZING INDIAN MANUFACTURING: FROM 'MAKE IN INDIA' TO 'MADE BY INDIANS'

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ABSTRACT :

This research paper delves into the historical evolution of India's trade and manufacturing, from the Indus Valley Civilization to the present, highlighting its significant contributions to the global GDP. The paper traces India's economic decline during British colonial rule, emphasizing the intentional destruction of indigenous industries. Post-independence, a shift towards service-centric policies led to a gradual decrease in India's global GDP share. However, recent initiatives like "Make in India" have demonstrated positive impacts, with India's GDP share growing to 7.51% in 2023.

The paper scrutinizes the current landscape, recognizing the success of attracting global manufacturing giants but underscoring the need to transform Indian MSMEs into globally recognized entities. It identifies challenges faced by these MSMEs, such as limited exposure to global markets, bureaucratic hurdles, and infrastructure deficiencies. The critical analysis emphasizes the importance of a comprehensive approach encompassing policies, production, positioning, and promotion to revive India's manufacturing sector.

A key proposal put forth is the transition from 'Make in India' to 'Made by Indians,' focusing on empowering Indian MSMEs to become integral components of the global supply chain. The paper explores the potential benefits of this shift, citing success stories in the Indian automobile sector. Additionally, it addresses the demographic dividend and the imperative to enhance the skills of India's workforce.

The research concludes with a gap analysis, outlining the challenges hindering India's manufacturing sector growth. It proposes solutions, including boosting investments, policy support, and a focus on tech-intensive and skill-intensive sectors. The paper underscores the importance of stabilizing the disrupted global supply chain, strengthening operational efficiency, and addressing challenges faced by MSMEs.

The study's objective is to provide a comprehensive understanding of the current state of Indian manufacturing, identifying opportunities and risks. By emphasizing collaboration between the government and the private sector, the research envisions a revitalized Indian manufacturing sector that plays a pivotal role in the nation's economic development and global supply chain dynamics.

KEY WORDS: *Make in India, Make by Indians.*

Objective of the Study

The industrial economic strength of any country is predominantly contingent on the performance of its manufacturing sector, which serves as the backbone of the economy. This sector plays a pivotal role by not only bolstering agriculture and services but also by developing products that enhance efficiency and productivity in these domains.

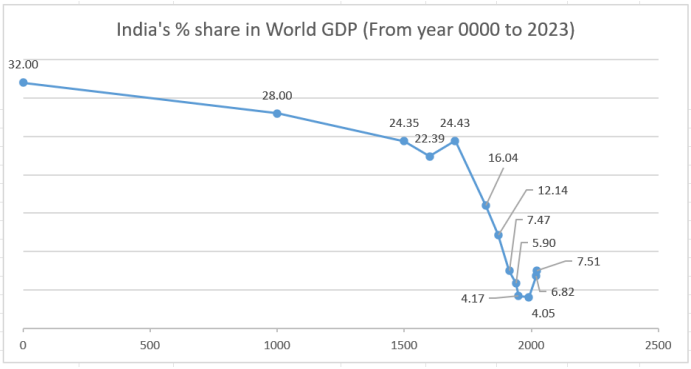
While the current government of India has initiated measures, including the "Make in India" campaign, to invigorate the manufacturing sector, there remains a pressing need for innovative ideas and comprehensive improvements.The government's objective of increasing the manufacturing sector's share in the GDP necessitates a more targeted and result-oriented approach, with a particular emphasis on promoting domestic manufacturing.

The challenges faced by the manufacturing sector in India, particularly Micro, Small, and Medium Enterprises (MSMEs), underscore the urgency for strategic interventions. Issues such as inadequate infrastructure, a dearth of skilled labor, technological upgrades, limited access to global markets, and complexities in securing affordable credit are hindering the growth of this crucial sector. Moreover, heightened competition from low-cost production countries compounds these challenges.

This study endeavours to identify opportunities, assess risks, and propose measures to mitigate these challenges. Exploring avenues from local to global perspectives, the study aims to guide the Indian manufacturing industry, particularly MSMEs, towards a more productive, efficient, and influential position. Despite formidable challenges, collaborative efforts between the government and the private sector, coupled with a profound commitment to growth, have the potential to drive sustainable reforms. The Indian manufacturing sector is poised to assume a pivotal role in both the nation's economic development and the global supply chain, provided concerted efforts are directed towards its advancement.

Introduction: India – From 0000 to 2023

The historical trajectory of India's trade and business dates back to the illustrious Indus Valley Civilization (2500 BCE to 1500 BCE). During this era, Indian business houses engaged in trade with some of the world's earliest urban civilizations, including Mesopotamia and Egypt. Trade items encompassed Pottery, Textiles, Metals, and Agricultural products, all crafted by Indian artisans. This flourishing trade continued through the Mauryan and Gupta Empires (4th century BCE to 6th century CE), where Indian economy prospered with the exchange of Textiles, Spices, Gems, and Iron.



For almost 1900 years, India's trade items were not only "Made in India" but also "Made by Indians." However, the dynamics shifted during the early 20th century with the onset of the Industrial Revolution in Europe and British colonization in India, intentionally disrupting Indian artisans and manufacturers.

This business and trading model positioned India as a significant contributor to the World GDP, accounting for 32% in the Classical era and remaining around 25% until the Late Medieval era. The decline began with invasions from Western Asia, and despite this, India's share in the World GDP was over 12% until the last 40 years of British rule, marked by intentional economic plundering.

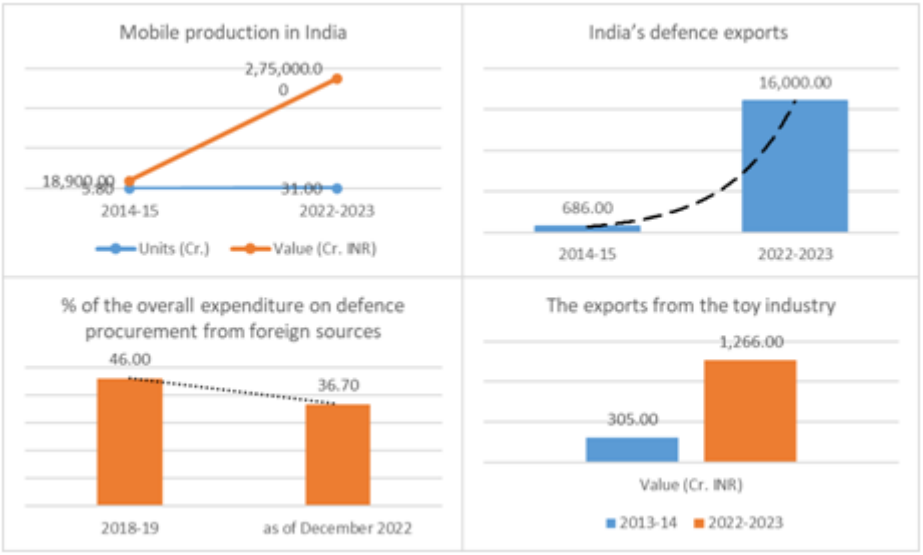
Post-independence in 1947 until the mid-1990s, the focus on the service sector rather than manufacturing led to a decline in India's contribution to the World GDP, dropping from 5.9% in 1940 to 4.05% in 1990[1]. However, a pivotal change occurred in 2014 with the introduction of the "Make in India" program by the current government. This initiative aimed to promote investment in manufacturing, transforming India into the preferred destination for global manufacturing houses.

The results have been promising, with a surge in Foreign Direct Investment (FDI) inflow worth USD 358.30 billion in the last six financial years (2014-20), representing 53% of the FDI reported in the previous two decades (USD 681.87 billion). This shift has not only boosted India's percentage contribution to the World GDP to 6.82% in 2020 but also witnessed further growth to 7.51% in 2023[1]. The "Make in India" initiative has played a pivotal role in revitalizing India's manufacturing sector and reclaiming its historical standing in the global economic landscape.

Move Forward to the Past

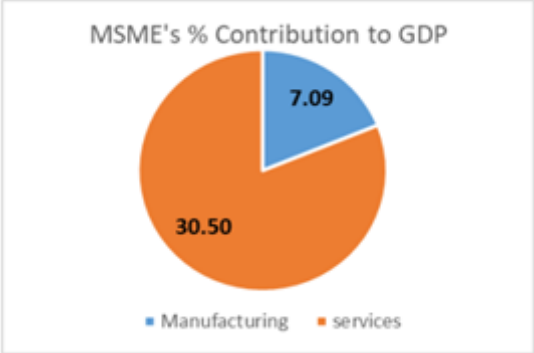
The "Make in India" initiative, led by the Government of India, has significantly shaped the nation's business environment and economic trajectory. Currently, India stands as the world's most attractive investment destination, holding the title of the fastest-growing economy globally. The country has achieved notable recognition across various indices, including the Growth, Innovation, and Leadership Index among the top 100 nations. Furthermore, it occupies the 7th position among 110 global investment destinations, solidifying its appeal for international investors. India's national brand has garnered esteem as the 7th most valued globally, contributing to its positive image on the international stage. The initiative has led to commendable advancements, reflected in the World Bank's Ease of Doing Business list, where India ascended 12 positions, and the Global Competitiveness Index, witnessing a jump of 16 places[3].

On a sectoral level, the "Make in India" initiative has yielded transformative outcomes. India has emerged as the second-largest manufacturer of mobile phones and the third largest in automobiles, establishing its prowess in the technology and automotive sectors. The country's pharmaceutical industry has earned the title of the "Pharmacy of the World," underscoring its significant role in global healthcare. In the realm of space exploration, India's historic achievement of landing on the moon's south pole and the Mangalayan mission's reliance on components from Small and Medium-sized Enterprises (SMEs) exemplify the initiative's diverse successes. These accomplishments not only enhance India's global standing but also showcase the effectiveness of the "Make in India" initiative across technology, healthcare, and space exploration.

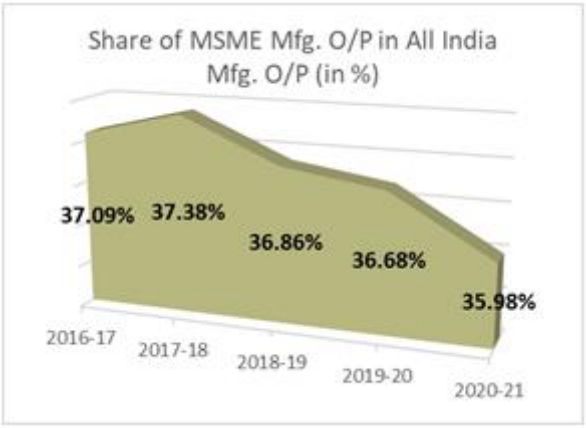


A closer examination of the current landscape reveals an overwhelming interest from global manufacturing giants in establishing their manufacturing foothold in India. Prominent examples include the automotive powerhouse Fiat Chrysler Automobiles, which is set to invest approximately $230-380

million in the establishment of an export-oriented manufacturing unit. In the aviation sector, Airbus Group is actively working towards increasing its aerospace parts sourcing from Indian companies to a substantial $2 billion. The spectrum of industries involved in this shift is broad, encompassing giants like Hitachi, Google for its Android One project, Apple, Foxconn, Harbin Electric, and several Swedish companies such as Tetrapak, Scania, Ericsson, and Volvo. These companies are strategically opting to shift their manufacturing bases to India, contributing to the diversification of their global supply chain in a more distributed and resilient fashion[4]. The emerging scenario underscores India's growing significance as a preferred destination for global manufacturing operations.

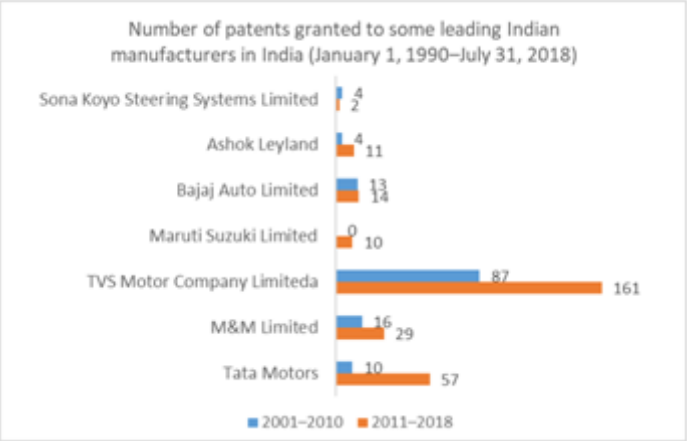


A critical examination beyond the successes and achievements reveals that while India has successfully attracted global manufacturing conglomerates to establish facilities, there is a considerable distance to cover in creating globally acclaimed multinational manufacturing brands from the Indian Micro, Small, and Medium Enterprises (MSME) sector, which forms the backbone of the Indian manufacturing landscape. Delving into the data, it becomes apparent that out of the 37.59% contribution of MSMEs to the Indian GDP, only 7.09% comes from the manufacturing sector, with the remaining 30.50% attributed to the service sector. The Ministry of MSMEs reports a staggering 63.4 million MSMEs in India, employing approximately 120 million people, ranking second only to the agriculture sector in employment generation. Despite these figures, the manufacturing sector's contribution from MSMEs stood at 35.98% of India's total manufacturing output in 2020-21, experiencing a continuous decline for the past four consecutive years. This analysis underscores the need for focused efforts to bolster the manufacturing capabilities of Indian MSMEs and foster the emergence of globally recognized manufacturing brands originating from within the country.



To re-establish India as the largest contributor to the world GDP, a comprehensive 360° approach is imperative for the manufacturing sector, with a concentrated focus on Micro, Small, and Medium Enterprises (MSMEs) engaged in manufacturing cutting-edge technology products. This approach necessitates addressing challenges faced by MSMEs and requires government intervention across policies, production processes, positioning, and promotion. Identifying the challenges faced by MSMEs is the initial step:

- ✓ **Financial Challenges:** MSMEs grapple with expensive credit, complex collateral requirements, and protracted documentation processes from financing institutions, leading to unwarranted delays in fund disbursement.
- ✓ **Limited Global Exposure:** A lack of exposure to global market intelligence results in a knowledge gap concerning high-demand products and marketing linkages globally.
- ✓ **Overseas Market Understanding:** Challenges arise from a lack of understanding of overseas markets, hindering the establishment of export distribution channels and connections with international counterparts.
- ✓ **Bureaucratic Hurdles:** A bureaucratic attitude in government institutions and among officials involved in promoting awareness on export assistance programs creates obstacles for MSMEs.
- ✓ **Regulatory Complexities:** Cumbersome regulatory frameworks, Intellectual Property Rights issues, and navigating numerous International Trade Agreements present obstacles for MSMEs.
- ✓ **Technology Accessibility:** Limited access to easily accessible, low-cost cutting-edge technologies hampers high-value addition and packaging that meets global quality standards.
- ✓ **Cost and Supply Chain Challenges:** Competitive costs, robust supply chains, and affordable logistics for raw material procurement pose challenges for smaller-scale MSMEs due to territorial complexities and financial limitations.
- ✓ **Infrastructure Weakness:** Basic infrastructure support, including uninterrupted power, water, and transportation, is lacking for non-cluster-based MSMEs.



Identification of challenges is the crucial first step before devising effective countermeasures, allowing us to progress towards the economic prominence we once enjoyed.

While acknowledging the positive impact of the government's "Make in India" initiative in highlighting the significance of the manufacturing sector, it is evident that we must now transition to the next phase—a more advanced version that resonates with the ethos of "Made by Indians."

This evolved initiative should not only address challenges but also foster a comprehensive ecosystem that empowers Indian entrepreneurs and innovators to contribute to the entire value chain, emphasizing research, development, and innovation.

By propelling the narrative from "Make in India" to "Made by Indians," we can envisage a transformative trajectory where homegrown products and industries not only meet global standards but also stand out for their quality, innovation, and excellence on the global stage.

Made by Indians

Let's begin by elucidating the concept of "Made by Indians" and its potential to catalyze growth in the Indian manufacturing sector and the broader economy.

In the contemporary landscape of economic development and a globalized business ecosystem, for India to ascend as a global manufacturing hub, it must not only attract multinational foreign manufacturing giants to establish production lines but also elevate Indian Micro, Small, and Medium Enterprises (MSMEs) into global manufacturing powerhouses. These entities should evolve into trusted

partners, recognized brands, and integral components of the global supply chain and product development ecosystem.

To grasp the affirmative impact of this approach, consider the Indian automobile sector as a compelling example, underscoring the necessity to shift focus from the "Make in India" initiative to the "Made by Indians" policy.

As of 2017–2018, India ranked as the sixth-largest global automobile producer, manufacturing approximately 29 million vehicles annually, with around 4 million being exported[5]. The automotive sector's contribution to the national GDP has surged from 2.77% in 1992–1993 to approximately 7.1% today. This sector represents nearly 49% of the manufacturing GDP (2015–2016)[6] and employs over 29 million people, encompassing both direct and indirect modes of employment. With a turnover of around US$ 67 billion (2016–2017)[7] for the automobile sector and US$ 43.5 billion (2015–2016)[8] for the component industry, the Indian automobile industry contributed 4.92% to global vehicle production in 2017[9].

Key advantages that make India an attractive investment destination include:

- ✓ **Diversification post-Covid-19:** The pandemic revealed the risks associated with over-reliance on a single manufacturing base within the global supply chain.
- ✓ **Strategic location:** India's strategic positioning on the world map facilitates business expansion in Asia and Africa.
- ✓ **Large domestic market:** India boasts a substantial domestic market.
- ✓ **Skilled and cost-effective workforce:** The availability of a skilled and relatively economical workforce maintaining high-quality standards.
- ✓ **Cost-effective operations:** India offers a conducive environment for cost-effective operations.

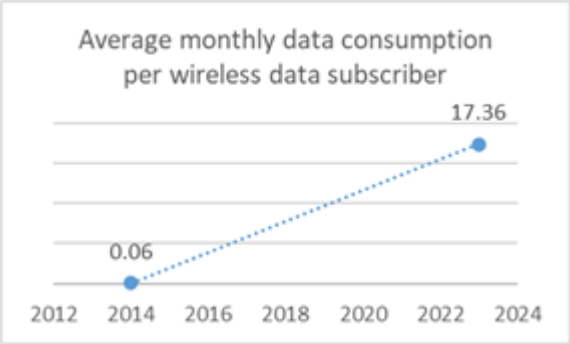
Despite these positive aspects, recent instances, such as the departure of global automobile giants like Harley Davidson, General Motors, and more recently, Ford, from India have raised concerns. While these exits resulted in job losses for skilled and semi-skilled workers, they did not diminish India's standing as a manufacturing hub. The resilience of the Indian automobile sector is evidenced by the global prominence achieved by homegrown brands like Tata Motors, M&M Limited, TVS Motor Company Limited, Maruti Suzuki Limited, Bajaj Auto Limited, Ashok Leyland, and Sona Koyo Steering Systems Limited.

Data indicates that the number of patents granted to leading Indian manufacturers from 2011-2018 has exceeded those granted from 2001-2010, illustrating the impact of investments in policies, technology, innovation, product positioning, and global promotion.

Opportune Areas

Telecommunications

This sector stands as one of the pivotal contributors to the Indian economy, accounting for 6.5% of India's GDP. In the final quarter of the fiscal year 2022-2023, the industry demonstrated robust performance, generating a substantial gross revenue of US$11.38 Billion. Encompassing Infrastructure, Equipment, Mobile Network Virtual Operators (MNVOs), White Space Spectrum, 5G, Telephone service providers, and Broadband, it holds the esteemed position of being the second largest globally.



As of September 2023, the sector boasts a formidable subscriber base of 1.181 billion, making it the second-largest telecommunications market in the world. The overall tele-density stands at an impressive 84.76%, with the predominantly untapped rural market accounting for 58.05%, and the urban segment reaching 133.54%.

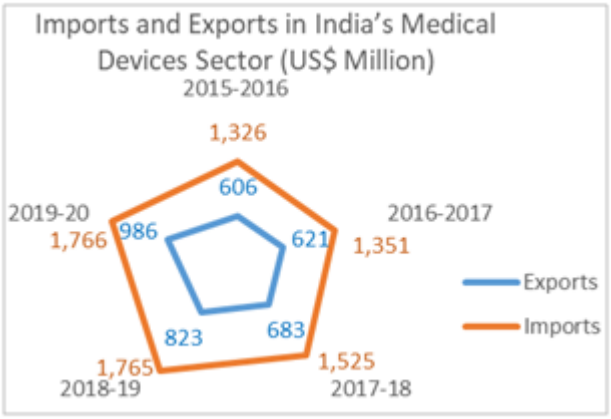
India's telecommunications industry, marked by a growth rate of 10% in Micro, Small, and Medium Enterprises (MSME) sectors until 2020, positions the country as a significant player in this global landscape. Within this dynamic sector, Indian MSMEs are presented with diverse growth opportunities, including:

- ✓ **Local Manufacturing:** Venturing into the production of low-cost mobile phones and auxiliary devices.
- ✓ **Telecom Equipment Manufacturing:** Engaging in the production of telecom equipment, including routers and switches.
- ✓ **Base Station Equipment Production:** Contributing to the manufacturing of crucial base station equipment such as transceivers.
- ✓ **Value-Added Services Development:** Exploring and contributing to the development of value-added services in the telecommunications domain.

These growth avenues underscore the potential for Indian MSMEs to play a pivotal role in shaping and advancing the telecommunications sector.

Healthcare & Pharmaceutical

According to the NITI Ayog report, the healthcare industry in India has demonstrated substantial growth, registering a Compound Annual Growth Rate (CAGR) of approximately 22% since 2016. In 2015, this sector ascended to become the 5th largest employer, directly engaging 4.7 million individuals. Despite commendable progress, India maintains a position as a net importer in the medical device domain. Presently, the country stands as the 4thlargest medical devices market in Asia, yet it relies heavily on imports, accounting for about 86% of its medical devices, particularly for critical and advanced medical commodities. The medical devices sector has sustained a steady growth trajectory, with a CAGR of 15% over the last three years.



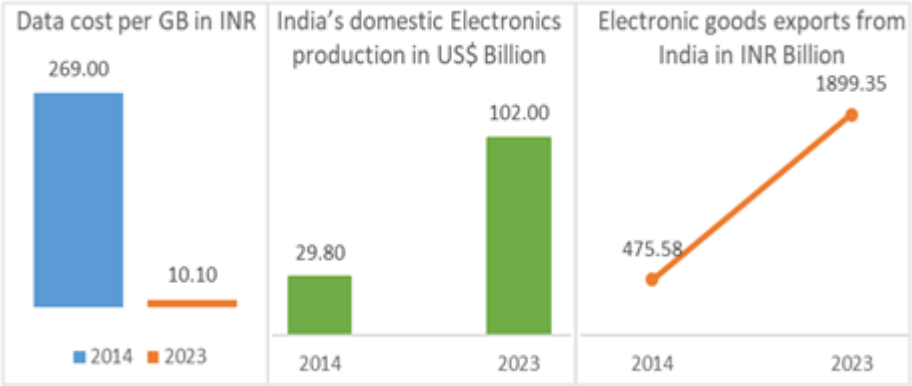
In the evolving landscape of health technology, marked by advancements such as Artificial Intelligence (AI), wearables, mobile technologies, and the Internet of Things (IoT), myriad opportunities await Micro, Small, and Medium Enterprises (MSMEs). Key segments where new prospects are likely to unfold for health technology players, particularly MSMEs, include:

- ✓ **Manufacturing of Personal Protective Equipment (PPE):** There is a burgeoning demand for the production of PPE, presenting a significant avenue for MSMEs to contribute to healthcare infrastructure.
- ✓ **Manufacturing of Low-Cost Medical Essentials and Accessories:** Opportunities abound for MSMEs in the manufacturing of affordable medical essentials, including surgical gloves, scrubs, and syringes, addressing the need for cost-effective healthcare solutions.
- ✓ **Telemedicine:** With the increasing acceptance and integration of telehealth services, MSMEs can explore innovative solutions and technologies to enhance the telemedicine landscape.
- ✓ **Diagnostic Labs:** The expanding diagnostic sector offers MSMEs the chance to contribute to the development of diagnostic labs, leveraging technology to improve healthcare diagnostics.

These identified areas underscore the potential for MSMEs to play a pivotal role in shaping the future of healthcare technology in India.

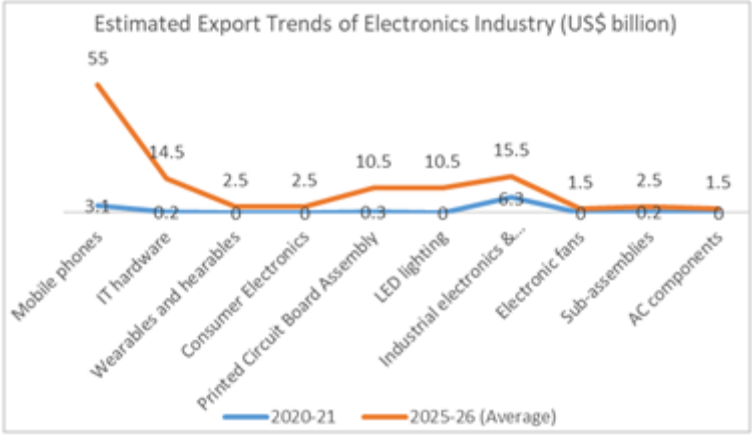
Electronics

The global electronics industry, valued at US$ 2.9 trillion in 2020, witnesses a substantial demand for electronic components in India, primarily fueled by consumer electronics, mobile phones, and industrial electronics, which collectively account for 82% of the demand. According to a report by the Ministry of Electronics and Information Technology (MeitY), India aspires to achieve electronics manufacturing worth US$ 300 billion by 2026, aiming to strengthen its position in the global electronic value chain.



India's market share in the global electronics manufacturing industry experienced significant growth, reaching 3.6% in 2020 from 1.3% in 2012. The country has solidified its standing as the second-largest mobile handset manufacturing country globally and concurrently holds the position of

the second-largest smartphone market worldwide. In 2022, India produced mobile phones worth around Rs 3.5 lakh crore, with projections estimating production to reach Rs 4-4.25 lakh crore in 2023.



According to the Federation of Indian Chambers of Commerce and Industry (FICCI), the television production sector in India recorded US$ 4.24 billion in 2020-21, poised to grow to US$ 10.22 billion by 2025-26, with a Compound Annual Growth Rate (CAGR) of 20%[12]. In the realm of electronics component manufacturing, India boasts a valuation exceeding US$ 11 billion, although the demand surpasses US$ 40 billion[13], emphasizing potential growth areas.

The Printed Circuit Board Assembly (PCBA) market in India is a promising sector, exhibiting a notable Compound Annual Growth Rate (CAGR) of 30%. It is anticipated that over the next five years, this market will present substantial opportunities, driven by increased outsourcing to Electronics Manufacturing Service (EMS) players, the "China+1" strategy, and the development of the domestic electronics ecosystem.

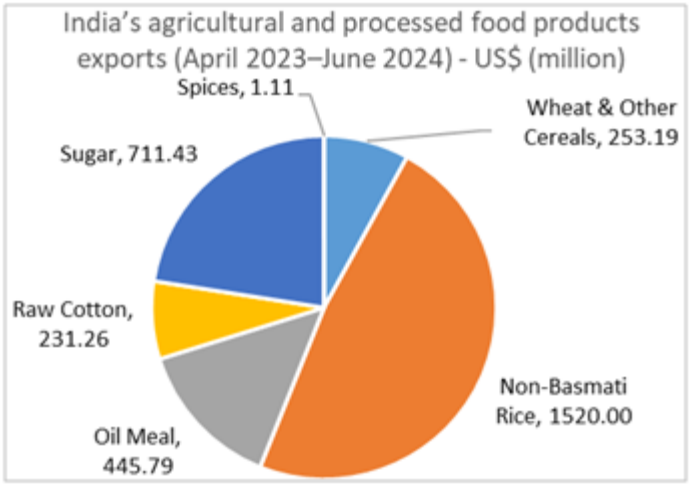
The Electronic Manufacturing Services (EMS) market in India is projected to reach US$ 80 billion[14] in the next five years, offering extensive growth opportunities for Indian conglomerates and Micro, Small, and Medium Enterprises (MSMEs). Key segments poised for emergence in the electronic manufacturing landscape include:

- ✓ Smartphone Manufacturing
- ✓ Information and Communication Technology (ICT) Hardware
- ✓ Consumer Electronics and Consumer Durables
- ✓ Electronic Components
- ✓ AC and LED Manufacturing
- ✓ Nano-electronics and Microelectronics
- ✓ Semiconductor Design
- ✓ Manufacturing of Products for Defence and Security Forces

These identified segments highlight the expansive potential for growth and innovation within India's electronic manufacturing sector.

Food and Agriculture

India plays a pivotal role in the global agriculture sector, holding the title of the highest producer of milk, pulses, and spices. Additionally, it claims the position of the second-largest producer of various commodities, including fruits, vegetables, tea, farmed fish, cotton, sugarcane, wheat, rice, and sugar. The Indian food processing industry, contributing to 32% of the country's total food market, stands as one of the largest and ranks 5thin terms of production, consumption, export, and anticipated growth.



The evolving lifestyle and a growing demand for processed and ready-to-eat foods are reshaping the landscape of the food industry. Despite the preference for convenience, contemporary consumers seek healthier, hygienic, and standardized products. This consumer preference opens substantial growth avenues for Indian Micro, Small, and Medium Enterprises (MSMEs) in the production of nutritious and wholesome foods and beverages.

The agricultural sector in India is undergoing a transformative phase, presenting opportunities for innovation. The incorporation of Artificial Intelligence (AI)-driven machinery and real-time Data and Machine Learning (ML) analytics could revolutionize agricultural processes, accelerating tasks such as harvesting, crop monitoring, and collection. This technological integration not only enhances productivity and crop quality but also proves beneficial by reducing manual labor and operational costs.

Diverse growth opportunities emerge for Indian MSMEs in the agricultural sector, including:

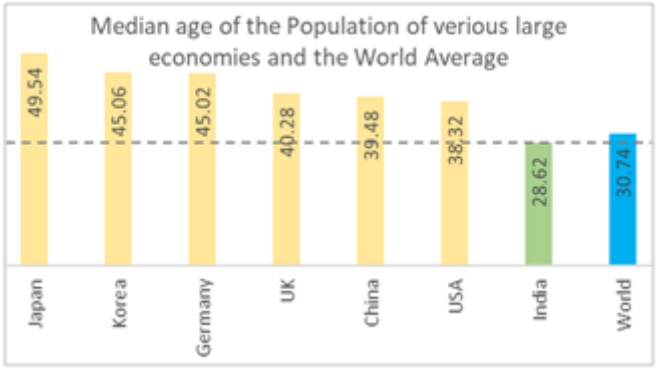
- ✓ **Food Products:** The production of ready-to-cook and ready-to-eat items, premixes, milk and dairy products, bakery items, processed meat, processed fruits and vegetables, marine products, and Mozzarella cheese.
- ✓ **Infrastructure Development:** Establishing backend infrastructure such as cold chain storage facilities, farm collection centers, and other logistical support.
- ✓ **Packaging Innovation:** Exploring innovative packaging solutions for processed food to meet evolving consumer preferences.
- ✓ **Contract Manufacturing:** Engaging in contract manufacturing for crop protection chemicals and crop nutrients.
- ✓ **Technological Advancements:** Developing AI and ML-driven tools and machinery to enhance efficiency and precision in agriculture.

These identified areas underscore the vast potential for Indian MSMEs to contribute significantly to the agriculture and food processing industry, aligning with the evolving needs and preferences of consumers.

Demographic Dividend

As per the UNFPA, the 'Demographic Dividend' refers to the growth potential derived from shifts in a country's age distribution, particularly when the working-age population (15 to 64 years) surpasses the non-working population. India stands out as one of the few countries with a median age of 28.4 years, contrasting with 48.4 in Japan and 38 in China as of 2020. A World Bank study (2005:10) recognizes India for its substantial skilled, English-speaking workforce, particularly in the sciences. With a robust democracy, coupled with key attributes such as macroeconomic stability, a vibrant

private sector, a free-market economy, a well-established financial sector, and a diversified science and technology infrastructure, India boasts one of the world's largest domestic markets[19].



The potential of this Demographic Dividend can catalyze improved economic growth in India. It contributes to an expanded workforce, enhancing overall productivity and creating greater financial flexibility for investments in human and physical infrastructure. Furthermore, it promotes increased participation of women in the workforce, thus generating new sources of economic growth. The Demographic Dividend also propels urbanization and industrial development, as a substantial number of individuals seek employment, driving economic activities. With a working-age population constituting approximately 68% of the total, India has the potential to emerge as a significant influencer in the global economy, contributing to more than half of Asia's workforce in the coming decades.

However, alongside these promising aspects, there are pressing concerns. India needs to foster increased participation of women in economic activities. As of 2019, only 20.3% of women were either working or actively seeking employment, a decline from 34.1% in 2003-04. Equipping the youth with critical skills is imperative, as future jobs will demand specialized expertise. India must enhance education and health parameters significantly to ensure a skilled and competent workforce capable of capitalizing on emerging opportunities.

Communities

Since the Vedic age, India has stood out as a civilization where businessmen, termed as "Vaishyas," were distinctly acknowledged and granted a special status, playing a crucial role in the socio-economic fabric. Blessed with a vast landmass and an extensive coastline of over 8000 KM (undivided India), the country's numerous coastal cities, strategically positioned as business centers, served as pivotal merging points for diverse trade routes, including the Silk route. Unlike a plethora of languages, India's regions were characterized by unique business communities such as the Banias and Kharis in the north, the Marwaris and Sindhis in the west, the Chettiars and Komatis in the south, and the Bengalis and Odias in the east.

Up until the onset of British colonialism in the 1850s, Indian business followed a distinctive model known as "Local supply-chain with Global markets." Each region boasted exclusive products crafted by local artisans with region-specific raw materials. However, the finished goods were traded to merchants from other regions and even foreign lands. Examples like the "Maslin" from the East, "Spices" from the South, and "Gems" from the West exemplify this rich tradition.

Post-independence from British colonialism, Indian entrepreneurship, innovation, and business dynamics underwent significant transformations. A notable shift occurred in the re-evaluation and restructuring of national policies, moving away from postcolonial Nehruvian socialism to fostering an environment that prioritizes innovation, economic freedom, and a culture of entrepreneurship for both the youth and established businesses. This strategic shift is reflected in the World Bank's "The Ease of Doing Business" report for 2019, where India jumped an impressive 79 places to secure the 63rd overall position, compared to its 142nd place in 2014.

The startup ecosystem in India has been invigorated by recent government initiatives, notably championed by Hon'ble Prime Minister Shri Narendra Modi. However, there remains considerable work

to be done. India needs to overhaul its educational curriculum for young children, steering it towards fostering an entrepreneurial mindset, instilling innovative ideas, and cultivating a tech-oriented orientation.

Challenges

The Make in India movement stands as a pivotal initiative with profound implications for India's economic development. By enticing Foreign Direct Investment (FDI) and encouraging global organizations to establish manufacturing units within the country, the program has undeniably fueled industrial growth, generated job opportunities, and reduced dependency on imports. However, its impact on elevating Indian manufacturers, particularly in the Micro, Small, and Medium Enterprises (MSME) sectors to attain global recognition or cultivate a robust contract manufacturing space, has been somewhat limited.

If embraced by the Government of India, this concept and initiative present a significant opportunity for Indian MSMEs in the manufacturing sector. It aligns with the Government's objective of fostering sustainable economic development that integrates all segments of society, simultaneously enhancing the standard of living for its citizens. Nevertheless, this endeavor comes with formidable challenges, including:

- ✓ **Bureaucratic and Regulatory Support:** The success of such an initiative hinge on the imperative need for robust bureaucratic and regulatory support, coupled with heightened transparency at every level.
- ✓ **Infrastructure Development:** The rapid growth necessitates swift development in physical infrastructure such as railways, roadways, power, and airports.
- ✓ **Agricultural Implications:** Given that about 60% of India's landmass is cultivable, a strong push towards manufacturing may potentially adversely affect the agriculture sector.
- ✓ **Environmental Concerns:** Speedy industrialization poses risks to the natural resources of the country, potentially leading to pollution and environmental side effects.
- ✓ **Skill Development:** Building capacity for the necessary skill sets among the urban poor and rural migrants is crucial for fostering inclusive growth.
- ✓ **Domestic Value Addition:** Enhancing domestic value addition and technological depth in the manufacturing sector is imperative to boost the global competitiveness of Indian manufacturing.

In navigating these challenges, a holistic and collaborative approach is essential to ensure that the Make in India movement not only propels economic growth but also upholds environmental sustainability and inclusivity.

Burden of hopes

The International Monetary Fund (IMF) has placed India as the "bright spot" in the world economy, foreseeing it as a key player in the global economic revival. The IMF anticipates that India will singularly contribute 15% to the global growth in 2023. In the first two quarters of 2023-24, India demonstrated robust growth, recording 7.8% in the first quarter and 7.6% in the second quarter, culminating in an impressive growth rate of 7.7%[20] for the initial six months.

The period spanning from 2014 to 2022 marked a significant phase in the Indian economy. The country underwent a series of fundamental and governance reforms that substantially enhanced overall efficiency. A key focus was on improving the ease of living and doing business. Reforms aimed at creating public goods, instituting trust-based governance, collaborating with the private sector for growth, and boosting agricultural productivity were pivotal. Dedicated infrastructural development initiatives such as Bharatmala, Sagarmala, electrification, railway upgrades including Vande Bharat and fast trains, and UDAN have significantly bolstered physical infrastructure. Additionally, the government's emphasis on digital infrastructure has been a transformative force, with India's core digital economy expanding at 2.4 times the overall economic growth between 2014 and 2019[21], as per the RBI's Monthly Bulletin.

India's performance amidst global challenges, including the pandemic and geopolitical events like the Russia-Ukraine and Israel-Palestine conflicts, has instilled hope in both developing and developed economies. The global economic community now looks to India to maintain and accelerate this momentum. However, to sustain its global standing, India needs to address critical aspects such as:

- ✓ **Monitoring External Factors:** Vigilance on issues like oil prices, external demand, and political developments for potential impacts on India's economic trajectory.
- ✓ **Adapting to Global Trade Trends:** Navigating the declining global trade environment, marked by a reduction in world trade growth.
- ✓ **Policy Coordination:** Ensuring consistent budgetary and economic policy coordination, considering macro risks and addressing inflation warnings.
- ✓ **Macroeconomic Fundamentals:** Placing increased focus on macroeconomic fundamentals and closely monitoring economic indicators.
- ✓ **Safeguarding Resilience:** Persistent emphasis on preserving economic resilience and stability for the lower and middle-income population.
- ✓ **Responsive Measures:** Vigilant observation and timely responsive measures for both global and domestic economic challenges.

Gap Analysis

The manufacturing sector demands a comprehensive examination from the government, academia, and researchers. Despite concerted efforts to augment its share in the GDP, the sector's contribution has not exhibited remarkable development. In a nation with 1.4 billion mouths to feed, India's overall economic growth and global market appeal could be severely impacted if the manufacturing sector does not undergo significant improvements. Reduced productivity may negatively affect job opportunities within the manufacturing sector, leading to reluctance from firms to invest in new technologies, research & development, and the creation of enhanced products to remain competitive. Ultimately, a less viable manufacturing sector could prompt business houses, including Micro, Small, and Medium Enterprises (MSMEs), to redirect both financial and human resources to other sectors.

Addressing these gaps requires immediate attention and swift action. To bridge these divides, India must:

- ✓ **Boost Investments:** Increase investments in domestic manufacturing units, especially MSMEs, supporting infrastructure upgrades, product innovation, adoption of cutting-edge technologies at affordable costs, and skill development for human resources.
- ✓ **Strategic Investment Policies:** Create focused investment policies for the manufacturing sector, providing both financial and non-financial incentives, promoting industrial and investment activities, and streamlining regulatory procedures.
- ✓ **Infrastructure Development:** Focus on developing essential infrastructure, including robust logistic networks, uninterrupted power supply, and seamless data connectivity.
- ✓ **Regulatory Process Re-engineering:** Restructure existing regulatory processes to mitigate complexities related to bureaucratic involvement, labor laws, and payment disbursement.
- ✓ **Entrepreneurship Encouragement:** Encourage entrepreneurship in the manufacturing of modern and technologically superior products. Provide support for innovative and globally competitive products, including seed finance, prototype development, product promotion in national and international trade platforms, and incubation support.
- ✓ **Skill Development Programs:** Design skill development programs in collaboration with industry and academia, specifically tailored for the manufacturing sector to enhance the competencies of the workforce.

Proposed Solution and Initiatives

Stabilize the disrupted global supply-chain

The pandemic, along with its widespread impact on the global supply chain, has compelled nations to embrace the "China+1" strategy for the production of essential goods. This shift presents a significant opportunity for India's manufacturers to emerge as a key global supplier. With escalating domestic demand and the imperative for other countries to diversify their sources to a cost-effective yet high-quality alternative to China, India's manufacturing sector has the potential to burgeon to $1 trillion. This growth trajectory could concurrently generate up to 90 million jobs within the country by the year 2025.

Focus more on tech-intensive, skill-intensive sectors

Indian manufacturers, particularly Micro, Small, and Medium Enterprises (MSMEs), are urged to pivot their focus from labor-intensive to skill-intensive sectors, aligning with recent export trends that underscore the viability of such a transition. Notably, products such as Drugs and Pharma, Engineering Goods, and Electronic Goods have demonstrated substantial and healthy growth compared to the previous year[23].

In October 2023, when compared to the corresponding period in 2022, the export performance of these sectors is particularly noteworthy. Drugs and Pharma exports experienced an impressive surge of 29.31%, signaling robust growth. Simultaneously, Engineering Goods exports displayed commendable growth, recording an increase of 7.2%. Electronic Goods exports outpaced the others with a substantial growth of 28.23%.

These positive export trends highlight the potential and resilience of skill-intensive sectors, emphasizing the need for Indian manufacturers, especially MSME units, to strategically align their focus with the evolving market demands. Capitalizing on the growth opportunities presented by these dynamic sectors can contribute significantly to the overall success and competitiveness of the Indian manufacturing landscape.

Strengthen operational efficiency

The Indian manufacturing industry endured years of diminished productivity due to the stringent and opaque licensing system. It was only in the mid-1990s, when India opened its market, that the sector found a rare opportunity, benefitting from both support and increased demand. To harness this favorable climate, manufacturers must now focus on enhancing their operational efficiency to elevate the productivity of both labor and capital.

A study conducted by McKinsey, analyzing 75 Indian manufacturers, emphasized the substantial potential for productivity improvements. For an average company, the findings indicated that there exists an opportunity for approximately 7 percentage points in additional returns on sales through enhanced operational efficiency. This underscores the imperative for Indian manufacturers to seize this opportune moment, align their operations with best practices, and unlock the untapped potential for increased productivity, contributing to the overall growth and competitiveness of the sector.

Ease of accessing Capital at a lower cost for the MSMEs

Micro, Small, and Medium Enterprises (MSMEs) stand as robust pillars supporting India's industrial economy, contributing significantly with approximately 45% of the manufacturing output and approximately 40% of the country's total exports. However, despite their vital role, access to credit for MSMEs remains challenging, characterized by rigidity, opacity, and time-consuming processes.

In contrast to medium and large-scale industries, the MSME sector faces less favorable credit accessibility and higher costs for working capital. Addressing these challenges should be of the utmost priority for the government. Transparent and streamlined measures need to be implemented to facilitate a more comfortable and efficient credit environment for MSMEs. By doing so, the government can play a pivotal role in supporting and nurturing the highest contributing sector of the country's economy, fostering its sustained growth and resilience.

Policy support

To bolster the Indian manufacturing sector, the government can play a pivotal role by formulating policies that foster rapid growth and enable seamless integration into the global market. Creating a protective environment against the challenges posed by large global manufacturers is crucial. Here are some considerations that the government might contemplate while drafting such policies:

- ✓ **Streamlining Excise Related Constraints:** Simplifying excise-related constraints will empower Indian manufacturers to navigate the complexities of both import and export markets with greater ease, enhancing their competitiveness on a global scale.
- ✓ **Government Procurement Support:** The government can boost demand for domestically manufactured goods by actively procuring a substantial portion of its requirements from Indian manufacturers. This approach not only stimulates economic activity but also provides economies of scale for the domestic industry.
- ✓ **Preference for Local Sourcing:** Offering preferences to large manufacturing units that source a majority of their required components and materials from Indian MSMEs can incentivize stronger collaboration within the domestic supply chain, promoting growth across various sectors.
- ✓ **Incentives for Innovation:** Providing financial and non-financial subsidies to MSMEs engaged in innovation and the development of technically advanced products can stimulate a culture of innovation within the manufacturing sector, making it more competitive on a global stage.
- ✓ **Support for Green Manufacturing:** Encouraging and supporting environmentally sustainable practices in manufacturing through policies promoting "Green Manufacturing" aligns with global trends and can enhance the marketability of Indian products on an international scale.
- ✓ **Restrictions on Cheap Imports:** Implementing strategic restrictions on the influx of low-cost imports from other countries, especially those that could undermine the competitiveness of domestic manufacturers, is crucial to safeguarding the interests of the Indian manufacturing sector.

By incorporating these considerations into policy frameworks, the government can create an environment conducive to the growth and competitiveness of the Indian manufacturing sector, fostering a resilient and globally integrated industry.

Conclusion

India distinguishes itself from nations where the manufacturing sector takes precedence in driving the economy. Currently, the services sector holds a substantial share, contributing 55% to the GDP, marking a notable increase from the previous year's 45%. In contrast, the manufacturing sector has experienced a modest growth of merely 2%, advancing from 15% in 2017 to 17% in 2022. After 75 years of colonial rule, India is poised to enter the economic premier league, surpassing the United Kingdom to become the world's 5th largest economy. The nation aspires to further climb the ranks, targeting the 3rd position by 2047, marking the centenary of its independence.

According to the International Monetary Fund (IMF), India stands out as a beacon of economic resilience in a post-pandemic world. It holds the distinction of being the fastest-growing large economy in the coming decades. However, to reclaim its past economic glory from the pre-colonial era, India must redirect its focus towards fortifying the manufacturing sector, with a specific emphasis on Micro, Small, and Medium Enterprises (MSMEs), aiming to position itself as a global manufacturing hub.

In pursuit of the economic objectives set for the upcoming years, fostering growth in manufacturing emerges as the singular imperative for India. With the implementation of strategic measures and unwavering execution, India's manufacturing sector has the potential to soar to US$4.5 trillion, elevating its GDP share to 22%—a significant jump from the base prediction of US$2.5 trillion with a 17% GDP share. This trajectory presents both a necessity and an opportunity for India to reclaim its historical economic eminence.

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