



RATIONALE OF MAKE IN INDIA

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ABSTRACT

There is a different scenario persist in Indian economy that the increasing economic growth with increasing unemployment. Contribution service sector in economic growth is more but less on employment. “A large section of the population especially the poor, scheduled castes, scheduled tribes, other backward classes, minorities and women lack access to the resources and opportunities needed to reap the benefits of economic growth,” says the World Bank in its latest Country Overview on India.

Even though the country tried to keep its pace of growth at higher levels with more economic reforms, it failed to generate more employment. The current state of play for manufacturing in and exporting from India does not look particularly impressive. India’s rank of 142 is near the bottom of the World Bank’s Ease of Doing Business list, and the country continues to lag well behind other Asian economies in the share of GDP attributable to manufacturing.

Objectives of the study is to reveal the development theory of sectoral shift, to analyse the sector wise contribution of GDP of India, to find the relationship among the GDP growth, industrial growth and unemployment rate in India and to obtain the rationale of Make in India Campaign. Methodology of the study is secondary data used to analysis the impact of industrialization and unemployment on economic growth during the period 1950-51 to 2014-

15. The relevant statistical & econometric tools like correlation, averages, growth rate; T-test & F-test is used.

To solve the problems of unemployment and unstable economic growth rationale of industrialization advised. There is a strong rationale for promoting manufacturing and attracting investments into the country. For that, Make in India is a positive initiative with considerable potential.

Key Words: Make in India, industrialization, unemployment rate.

Introduction:

There is a different scenario persist in Indian economy that the increasing economic growth with increasing unemployment. Contribution service sector in economic growth is more but less on employment. “A large section of the population especially the poor, scheduled castes, scheduled tribes, other backward classes, minorities and women lack access to the resources and opportunities needed to reap the benefits of economic growth,” says the World Bank in its latest Country Overview on India.

The unemployment rate in India was last reported at 9.4 per cent in fiscal year 2009-10. From 1983 until 2000, the unemployment rate averaged 7.20 per cent reaching the historical high of 8.30 per cent in December 1983 and a record low of 5.99 per cent in December 1994.

Meanwhile, the gross domestic product (GDP) growth in India increased to 7.7 per cent in the second quarter of 2011 over the previous quarter. Historically, from 2000 until 2011, India's average quarterly GDP growth was 7.45 per cent. It reached a historical high of 11.80 per cent in December 2003 and a record low of 1.60 per cent in December 2002. The economy has posted an average growth rate of more than 7 per cent in the decade since 1997. The Reserve Bank of India estimated the GDP growth for this financial year at 7.6 per cent at the end of March 2012. This means the growth rate is not able to reduce the unemployment rate.

“Poverty remains a major challenge though it is declining steadily but slowly,” according to the World Bank. Based on the new official poverty lines, 42 per cent of people in rural areas and 26 per cent of people in urban areas lived below the poverty line in 2004-05. Official poverty estimates for 2009-10 are not yet available but preliminary estimates suggest that in

2009-10, the combined all-India poverty rate was 32 per cent as compared to 37 per cent in 2004-05”.

Resources generated from the recent growth are now being invested in a set of ambitious programmes to deliver services to the poor. These include programmes to provide elementary education, basic healthcare, health insurance, rural roads and rural connectivity, and other services to the poor. Nevertheless, resource mobilisation on the part of the government is tardy as well as it fails to tap new avenues.

The World Bank has pointed out that with India's low taxation base - only some 15-16 per cent of GDP is collected as taxes in India compared to 25-40 per cent in developed countries - the country is unable to invest the required amount through its budgetary resources. This also means that the government is yet to tax the big corporate enough, who get lot of incentives from the government.

Here comes the overshooting of government borrowing which would push the inflationary pressures. If the government is able to tap funds from the corporate either by increasing taxes or by asking them to purchase high interest government bonds, it will be able to tighten money supply in the system and reduce fiscal deficit. The World Bank's country strategy advocates greater investments in infrastructure as a priority to attract investment and generate employment.

Even though the country tried to keep its pace of growth at higher levels with more economic reforms, it failed to generate more employment. Financial inclusion will be possible only by implementing financial justice. Industrialization can make Economic growth faster and steadier, which is required for current Indian scenario. Industrialization refers to a process of change in technology used to produce goods and service.

According to Wilbert Emoore and G.R.Madan, it is a much broader process of economic development, which has in view the integrated development of all other sector, i.e. agriculture, power, transport and other services.

Rapid industrial growth has resulted in the expansion of infrastructural facilities. The development of modern industries has stimulated the growth of banking, insurance, commerce,

shipping, air services, etc. Industrialization has a major role to play in the economic development of the under developed countries and developing countries.

The role of industrialization in the development of country can be analysed as follows:

- i. Increase in per capita income
- ii. Growth in international trade
- iii. High level of investment
- iv. Generation of employment
- v. Meets the requirements of people
- vi. Growth of infrastructure

The current state of play for manufacturing in and exporting from India does not look particularly impressive. India's rank of 142 is near the bottom of the World Bank's Ease of Doing Business list, and the country continues to lag well behind other Asian economies in the share of GDP attributable to manufacturing.

Further, a report from consulting firm McKinsey observes, "India exports goods worth 17 percent of GDP but also imports manufactured goods worth nearly 16 percent of GDP, so the net contribution of the manufacturing sector's exports to overall GDP is negligible. By contrast, China's manufacturing sector contributes 47 percent of China's GDP, and its contribution to net exports is large."

The underlying fundamentals, however, tell a more optimistic story about India. The better side of our economy is youth population in our country. Approximately half of India's 1.2 billion people are under the age of 26, and by 2020, it is forecast to be the youngest country in the world, with a median age of 29. China is forecast to have a median age of 37 by then.

Already, manufacturing labour costs nearly four times as much in China, at an average of \$3.52 an hour, as it does in India, at 92 cents an hour, according to an analysis by Boston Consulting Group cited by Bloomberg Business. Now, these are largely expectations for the future. There are no assurances young workers in India will be as productive as young workers in China have been. Labour costs in India may follow a different trajectory and rise quickly.

Other challenges have the potential to hinder manufacturing and exports in India. The country still has poor infrastructure. Unreliable roads, ports, and airport facilities add cost to logistics and require buffer stocks. Power outages are common. The regulatory burden is still high. There are many different import/export rules, and the overall complexity of trade compliance is a notable problem.

Prime Minister Narendra Modi was elected with the mandate of confronting these challenges, and his 'Make in India' campaign is one outcome of this. It calls for specific measures that would fix the country's well-chronicled infrastructure problems and streamline regulation in a business-friendly way.

India rode the wave of information technology and business-process off shoring, but the India of tomorrow is much more manufacturing-centric. The much-ballyhooed export of IT and BPO services will not scale to make a meaningful increase in the country's broader economic output- those are much smaller markets when compared to manufacturing and they cannot provide employment for those without university educations. However, they are certainly a welcome part of the strategy.

Objectives of the study

1. To discuss about the economic shift of the country
2. To analyse the sector wise contribution of GDP of India
3. To find the relationship among the GDP growth, industrial growth and unemployment rate in India.
4. To obtain the rationale of Make in India Campaign

Hypothesis of the Study

1. There is no significant relationship between GDP growth and Industrial development in India.

Methodology of the study

The study completely based on the secondary data analysis during the period 1950-51 to 2014-15. The data for the relevant variable may be collected from the Indian Planning Commission, RBI reports, ministry of Industries, reputed journal articles, books, etc. The

relevant statistical & econometric tools like regression analysis, correlation, averages, growth rate; T-test & F-test is used.

Sector Theory of Economic development

This theory argues that over time the relative share of production in each major sector will change in the region. The economy is divided into three aggregated sectors: primary (ag, forestry, fisheries), secondary (manufacturing, mining) and tertiary (trade and services). Due to the income elasticity of demand for primary, secondary, and tertiary products, the region becomes specialized in primary, then secondary, then tertiary products.

In contrast to the economic base theory and staple theory, which emphasize external economic relationships, sector theory focuses on the internal structure of the economy. The income elasticity of demand for the products of different sectors drives the sectoral shifts in production. Increases in labor productivity support the changing sectoral allocation of the labor force. As income per capita increases, the demand for manufactured goods will exceed the demand for agricultural and other primary products. Subsequently the demand for services predominates and the service sector becomes the largest regional sector.

In comparison with sector theory, India has a different phenomenon. Indian economy shift directly from primary sector to tertiary sector. It ignores the industrial sector or less important to industrial sector. This type of improper shift in the sector will lead to less growth in Indian economy over the years.

Sectoral Contribution to Economic Growth

Indian economy is classified in three sectors — Agriculture and allied, Industry and Services. Agriculture sector includes Agriculture, Forestry & Logging, Fishing and related activities. Industry includes Manufacturing, Electricity, Gas, Water supply, and Construction. Services sector includes Trade, repair, hotels and restaurants, Transport, storage, communication & services related to broadcasting, Financial, real estate, Community.

Services sector is the largest sector of India. At 2011-12 prices, composition of Agriculture & allied, Industry, and Services sector are 16.11%, 31.37%, and 52.52%, respectively. According to CIA Facebook sector wise Indian GDP composition in 2014 are as follows: Agriculture (17.9%), Industry (24.2%) and Services (57.9%). Total production of

agriculture sector is \$366.92 billion. India is 2nd larger producer of agriculture product. India accounts for 7.68 percent of total global agricultural output. GDP of Industry sector is \$495.62 billion and world rank is 12. In Services sector, India world rank is 11 and GDP is \$1185.79 billion. Contribution of Agriculture sector in Indian economy is much higher than world's average (6.1%). Contribution of Industry and Services sector is lower than world's average 30.5% for Industry sector and 63.5% for Services sector.

Contribution of agricultural sector is start-decreasing, contribution of industrial sector very less and unchanged, but the contribution of services sector to GDP is continuously increasing but its growth in not consistent. Service sector growth can give the momentary contribution in GDP of India.

Table:1 Sector wise contribution of GDP of India 1950-2015 (2004-05 Constant Prices)

Year	Agriculture % in GDP	Growth rate	Industry % in GDP	Growth rate	Services % in GDP	Growth rate
1950-51	51.88	-	16.19	-	29.54	-
1955-56	50.01	-3.60	18.07	11.61	29.62	0.27
1960-61	47.65	-4.72	20.09	11.18	30.19	1.92
1965-66	40.53	-14.94	24.38	21.35	33.76	11.83
1970-71	41.66	2.79	23.62	-3.12	33.26	-1.48
1975-76	39.86	-4.32	23.62	0.00	35.06	5.41
1980-81	35.69	-10.46	25.66	8.64	37.65	7.39
1985-86	32.91	-7.79	25.94	1.09	40.36	7.20
1990-91	29.53	-10.27	27.63	6.52	42.55	5.43
1995-96	25.73	-12.87	28.44	2.93	45.69	7.38
2000-01	22.26	-13.49	27.25	-4.18	50.49	10.51
2005-06	18.27	-17.92	27.99	2.72	53.74	6.44
2010-11	14.59	-20.14	27.92	-0.25	57.48	6.96
2014-15	17.01	16.59	30.02	7.52	52.97	-7.85
Average	33.40	-7.78	24.77	5.08	40.88	4.72

Source: Planning Commission, Government of India

Table -1 reveals that sector wise contribution of GDP of India from 1950 to 2015. It shows that the contribution of agriculture sector start falling at an average rate of -7.78 per cent. Industrial sector contribution increasing at decreasing rate, the average growth rate of industrial

sector is 5.08 per cent during the study period. Finally the contribution of service is growing at an increasing rate, but the huge volatile in the during the study period. Therefore, the average growth rate of service sector is less (4.72 per cent) than the industrial sector (5.08). So that, countries like India should give more priority to the industrial sector. Make in India is the right choice at right time for India's steady growth in GDP.

Economic Growth and Unemployment:

Economic growth and unemployment are interrelated because the two concepts are intertwined. The level of unemployment in an economy may affect the rate of economic growth, while the level of unemployment is also an indicator of the state of the economic growth of an economy.

Another link between economic growth and unemployment is the fact that unemployment is one of the macroeconomic factors used by economists and other interested parties to measure the rate of growth or the current health of the economy. When the unemployment level starts to drop, it is usually in connection to other macroeconomic factors like an increase in demand for goods and services, which serve as the catalyst for the increase in employment. There is a situation persist in India is that economic growth with unemployment. Contribution service sector in economic growth is more but less on employment.

Table:2 Relationship among the GDP growth rate , industrial growth rate and unemployment rate in India

Year	GDP Real Growth Rate	Industrial Growth Rate	Unemployment Rate
2002	4.3	6	8.8
2003	8.3	6.5	9.5
2004	6.2	7.4	9.2
2005	8.4	7.9	8.9
2006	9.2	7.5	7.8
2007	9	8.5	7.2
2008	7.4	4.8	6.8
2009	7.4	9.3	10.7
2010	10.4	9.7	10.8
2011	7.2	4.8	9.8
2012	6.5	3.1	8.5
2013	3.2	0.9	8.8

Source: Calculated from the Planning Commission website

The above table expresses that, the GDP real growth rate influenced by the industrial growth rate and unemployment rate. Increase in the industrial growth rate positively correlated with the GDP growth rate. Decrease in unemployment rate will lead to increase in the GDP growth rate of the economy.

Testing of Hypothesis

Null hypothesis (H₀): There is no significant relationship between GDP growth and Industrial development in India.

Alternative Hypothesis (H₁): There is significant relationship between GDP growth and Industrial development in India.

The following result obtained from statistical tools like regression analysis, which are follows.

SUMMARY OUTPUT	
<i>Regression Statistics</i>	
Multiple R	0.75483
R Square	0.569769
Adjusted R Square	0.474162
Standard Error	1.483037
Observations	12

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>
Intercept	5.817248	3.250324	1.789744	0.107114
X Variable 1	0.620023	0.18049	3.435225	0.007446
X Variable 2	-0.27787	0.380302	-0.73066	0.483572

To estimate the relationship between GDP growth and Industrial development in India the study applied regression techniques as explained above. To quantify the extent of the significant, the researchers measured impact industrial development and unemployment rate on GDP growth in India using linear regression equation as illustrated below. Results for regression

equation without lags are presented in equation 1. Lags were included in order for the regression model to be able to predict the future, that is, to predict what will happen in the period (t) based on knowledge of what happened up to (t-1).

$$Y_t = 5.8172 + 0.62X_{2t} - 0.278X_{3t} \dots\dots\dots (1)$$

The estimated equation (1) uncovered that the impact industrial development and unemployment rate on GDP growth can be interpreted that as the industrial development has positive sign with GDP growth which implies that the first variable goes up by one percent (1%), GDP growth goes up by 5.8172. Whereas the other variable mentioned in equation 1 as unemployment increases 1 percent that will significantly influence the GDP growth to reduce in 0.278. The coefficient of determination (R^2) = 0.569769 implied that 56% of the variations in GDP growth rate have been explained by above mentioned two variables (industrial growth and unemployment growth) and about 44% was captured by other factors which have substantial influence on GDP growth but were excluded from the model. This is because the economic growth does not only get influenced by industrial growth but also by other factors such as agricultural and service sector.

ANOVA			
	<i>df</i>	<i>SS</i>	<i>MS</i>
Regression	2	26.21459	13.10729
Residual	9	19.79458	2.199397
Total	11	46.00917	

Turing to the statistical significance of the estimated coefficients, we see from equation 1 that the estimated coefficient is statistically significant at say the 5 percent level of significance. The ratio of the estimated standard errors (that is t ratios) is 1.790, 3.435 and 0.731 respectively. This model tested with the help of F test. Under the usual assumptions, we option the table value of f test value as 4.26 which is distributed as the F distribution with 2 and 9 df. The computed F value is obviously highly significant; we can reject the null hypothesis that the mentioned two variables are significantly influence the GDP growth of India during the study period.

Rationale of Make in India

According to Mr. Suresh Narayanan,(chairman and managing director, Nestle India Ltd.) Make in India is a positive initiative with considerable potential. There is a strong rationale for promoting manufacturing and attracting investments into the country. As with all policies and programmes, this needs to evolve with time. Infrastructure, enabling policies, a transparent and conducive regulatory mechanism and other such measures will surely accelerate the pace of this.

The potential for multinationals to more fully incorporate India into their global manufacturing strategies is made more interesting by the fact that the country's middle classes are rapidly ramping up consumption. GM, for example, recently announced a new \$1b investment to ramp up production capacity in one region in India even as it is winding down production in a different region. GM's plant in Gujarat will shut down next year, while its plant in Talegaon will receive a capital injection to increase capacity.

This will better position the company to sell some of the cars domestically while also securing a direct route to the nearby African and West Asian markets. One could think of the newest GM investment in India as a creative way to hedge its expectations to sell to India's consumers while still leveraging the full benefits of its workforce.

More broadly, companies in the biotechnology, pharmaceutical, electronic systems, renewable energy, oil and gas, and textiles sectors are also poised to become more dependent on India from both manufacturing and retail perspectives.

All of this comes down to having the right people, the right policies, and a high demand. India seems to have the demographic profile necessary for export-driven growth by manufacturing. And, although it has some way to go, it seems to be headed in the right direction on the policies. The demand, as is evident by growth of the China plus one approach, is obvious.

In addition to that, there are many rationales for Make in India discussed below:

- Make it India can absorb the excess labourer in agriculture sector
- It can solve the acute unemployment problems of India especially among less skilled workers.
- It can remove the bottlenecks of economic growth of the country

- Further it avoid the volatile in growth rate of the economy
- It gives the permanent solution to the problems of economic growth and stabilization
- It can provide inclusive employment to all sort of labourer in the country

Conclusion:

Sector theory of economic development argues that over time the relative share of production in each major sector will change in the region. Due to the income elasticity of demand for primary, secondary, and tertiary products, the region becomes specialized in primary, then secondary, then tertiary products. However, the Indian economy had a different shift from primary to tertiary sector. Contribution of Agriculture sector in Indian economy is much higher than world's average (6.1%). Contribution of Industry and Services sector is lower than world's average 30.5% for Industry sector and 63.5% for Services sector. Even though the country tried to keep its pace of growth at higher levels with more economic reforms, it failed to generate more employment. To solve the problems of unemployment and unstable economic growth industrialization may practiced. There is a strong rationale for promoting manufacturing and attracting investments into the country. For that, Make in India is a positive initiative with considerable potential.

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