**Make in India makes sense, Dr Rajan; countries cannot be run by economic theory alone**
By Sanjeev Nayyar December 17, 2014

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The Reserve Bank of India (RBI) Governor Raghuram Rajan recently said the following (http://firstbiz.firstpost.com/economy/decoding-rajans-advice-modi-should-change-outline-of-his-make-in-india-strategy-112971.html) : "There is a danger when we discuss 'Make in India' of assuming it means a focus on manufacturing, an attempt to follow the export-led growth path that China followed. I am...cautioning against picking a particular sector such as manufacturing for encouragement, simply because it has worked well for China. India is different, and developing at a different time, and we should be agnostic about what will work."

Excerpts from a *Business Standard* (BS) editorial of 15 December have this to say: "Make in India sounds too close to import substitution and old-style industrial policy for comfort. Further, it has been reported that the prime minister himself has asked secretaries to the government to appraise imports on a quarterly basis and work out how to reduce them."

These words have raised doubts on the Prime Minister's Make in India (MII) campaign. Using examples, this article throws light on what MII actually means.

**One,** according to this *Mint* report, India imported $31 billion worth of electronic items in 2013-14, including $10.9 billion of mobile phones. This could rise to $296 billion by 2020 – which could surpass even our oil import bill. This is simply unsustainable, unless a part of the import demand is met by domestic production.
(http://www.livemint.com/Industry/j6PvasGzddHr29lPDe63eL/Your-fascination-for-smartphones-is-driving-Indias-trade-de.html)

MII means that this equipment should also be made in India. After all why, should India's telecom backbone be made in China? (http://www.business-standard.com/article/opinion/the-foreign-spine-113051501140_1.html) "Now, it has been reported that the National Security Council (NSC) has specifically warned that imports from China, which are over half of imports in the relevant category of telecom equipment, pose significant national security hazards."

As and when a domestic manufacturer achieves scale, it can begin to export. If Bharti Airtel had built a plant to manufacture telecom products and equipment to cater to its domestic needs, it could have sourced some of it for their Africa operations from India. Here MII combines catering to domestic and export markets.

**Two,** the programme of blending ethanol with fuel has failed to take off. MII means allowing oil marketing companies (OMCs) to set up 100 percent ethanol plants (these plants can make ethanol directly from cane). This way farmers can sell cane directly to the OMCs, and would be paid promptly, saving the country dollars.

**Three**, according to this report, "A committee has been set up to evaluate which Indian defence shipyards can build six high-tech, conventional submarines under Project 75I at an estimated cost of Rs 50,000 crore". (http://www.business-standard.com/article/economy-policy/defence-panel-clears-projects-worth-rs-80k-cr-114102500755_1.html)

MII means orders are given to Indian companies rather than imported from, say, Germany. This would create jobs, and the expertise to build submarines which could earn from exports too. In defence, exports are invariably linked to gains in foreign policy.

**Four**, according to a 2014 *Forbes India* report, 2.6 lakh Indian students spent Rs 27,000 crore to study abroad. Indians are paying the salaries of foreign teachers and sustaining foreign universities. (http://forbesindia.com/graphics/world-watch/how-much-international-students-are-really-worth/23662)

MII means that the government (state governments have a key role to play) creates a framework that encourages the setting up of high quality educational institutions which can attract more students in India. Thus, even if 40 percent of students stay back to study in India, imagine the multiplier effect of Rs 10,800 crore of educational spending!

**Five,** according to this report by the Indian Electrical & Electronics Manufacturers Association, "during the years 2005-06 to 2012-13, India's imports of electrical equipment have increased at a compound annual growth (CAGR) of 24.67 percent in rupee terms, touching Rs 64,674 crore in 2012-13.". Further, China's share in Indian imports of such equipment stood at 44.92 percent. This has resulted in under-utilisation of domestic capacity, loss of employment and possibly NPAs for PSU banks. (http://www.business-standard.com/article/sme/chinese-imports-hurting-electrical-equipment-units-114072801129_1.html)

MII means providing domestic industry with a level playing field. There is no harm in raising tariffs if the exporting country gives subsidies which help its companies have an unreasonable competitive advantage. Import substitution through a diktat will not work but taking concrete steps to improve competitiveness will. Simultaneously, agreements with private power producers should support domestic industry.

**Six**, "Globally, medical tourism is estimated to be a $100-billion market, of which the US has the lion's share in value terms — if not in terms of the number of patients".

MII means getting more foreign patients to India for treatment. It has huge employment potential and improves India's brand equity. Also, ObamaCare is fast ensuring that healthcare companies are migrating patients to make medicare cheaper; the depreciating rupee makes Indian medical tourism more viable. (http://www.business-standard.com/article/companies/medical-tourism-set-to-be-in-the-pink-of-health-113082100489_1.html)

**Seven,** according to this *Hindu* report, "Markets across Indian towns and cities are flooded with Chinese products, more so around festivals such as Deepavali. From furniture and gadgets to industrial equipment, India is importing almost all products from its neighbour, even yarn for saris". China used a low-cost production strategy to ensure that the manufacture of such products became unviable in the US. This affected the SME sector, resulting in a loss of jobs and adversely impacting the trade deficit. (http://www.thehindu.com/sunday-anchor/make-in-india-vs-make-in-china/article6533575.ece)

MII means the government has to help India's SME sector become competitive so Indian consumers buy their products. This requires reform of labour and factory laws, redefining financial limits for SMEs, etc.

A Myanmar trader at the border town of Moreh recently told this writer that the quality of Indian cycles and plastic crockery was far superior to China's, but for customers it is all about price. The game is all about volumes, per unit cost and quality.

**Eight,** in the 1980s, India imported the Bofors gun. The subsequent payoffs controversy ensured that no more imports were permitted to the detriment of the Indian Army. According to this *Economic Times* report, Bharat Forge's joint venture with Elbit Systems will initially work on a 155mm howitzer modernisation programme. The company has also built a howitzer from scratch that has far greater firepower than even the Bofors gun that's currently in use. (http://economictimes.indiatimes.com/industry/auto/auto-components/indian-bofors-auto-components-leader-bharat-forge-turns-focus-to-defence-technology-ready-with-advanced-guns/articleshow/42208343.cms)

MII means working with a foreign partner for the domestic production of howitzers.

**Nine,** according to a commerce ministry strategy paper, "The burgeoning imports of edible oils, pulses, fertilisers, coal and now iron ore, even cell phone instruments, have all benefited from domestic industrial policy, which at best was negligent, or worse, downright hostile" (to domestic manufacturers).
(http://www.livemint.com/Opinion/rGFgGipw0KJqiwa3QKNHXP/Fixing-the-current-account-deficit.html)

MII means motivating farmers to produce edible oils and pulses and creating a policy that motivates industry to set up new fertiliser plants.

If understood and implemented correctly, Make in India is a timely campaign. We cannot rely on exports in services and remittances alone to fund the trade deficit.

The above examples, though not exhaustive, seek to create an Indian model for manufacture, ie based on our unique needs.

However, there is no gain in saying that the government needs to make the business environment friendly and reduce the costs of doing business. At the same time industry must not leave everything to the government.

Nations cannot be driven by economic theory alone. India needs an integrated approach that combines economics, national strategy and security.
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