

**1. We are in the 7th year of the Make in India programme. What is your assessment of the effects of this flagship initiative? Has the programme been able to meet the intended objectives? Critically examine.**

**Demand of the question** – Write in brief about the Make in India programme and then assess the effects of this initiative over the last 7 years and also critically examine whether the programme has been able to meet its intended objectives.

### Introduction

Make in India is a major national programme of the Government of India designed to facilitate investment, foster innovation, enhance skill development, protect intellectual property and build best in class manufacturing infrastructure in the country.

### Body

- The Make in India programme is very important for the economic growth of India as it aims at utilising the existing Indian talent base, creating additional employment opportunities and empowering secondary and tertiary sector.
- The Make in India slogan clearly points to the government's aim to make India a global manufacturing hub. This signals a paradigm shift in focus, from tertiary to manufacturing.
- The three major objectives were:
  - to increase the manufacturing sector's growth rate to 12-14% per annum in order to increase the sector's share in the economy;
  - to create 100 million additional manufacturing jobs in the economy by 2022; and
  - to ensure that the manufacturing sector's contribution to GDP is increased to 25% by 2022 (revised to 2025) from the current 16%.
- Some of the other effects of Make in India initiative can be seen as below:
  - Measures to improve business confidence have led to progressive improvements in India's rank in the World Bank's ease of doing business rankings from 142 in 2014 to 100 in 2017.
  - Five industrial corridors and 21 new nodal industrial cities are being developed to boost industrial growth.
  - The Insolvency and Bankruptcy Code 2016 has consolidated all rules and laws pertaining to insolvency into one legislation.

The programme's effectiveness in achieving its objectives can be seen from the points given below:

1. The 'zero defect zero effect' phrase which came with Make in India campaign has shown positive impact on the Micro, Small and Medium Enterprises (MSMEs) of India.
2. The digitization initiative that is part of Make in India has helped make processes much more transparent and easier to implement. At the ground

level, we have noticed many companies and customers respond positively to the Made in India tag which was not always the case earlier. Eg- LED lights initiative.

3. According to the data published by Department of Industrial Policy & Promotion (DIPP) in December 2016, highlighted that the industrial activity rose by 29 percent. Much of this growth was concentrated in three states- Karnataka, Madhya Pradesh, and Maharashtra.

Given that big-ticket projects for grand initiatives such as 'Make in India' have long gestation periods and lag effects, assessments of such initiatives can be premature. Nonetheless, following points do show the lacunae's:

1. The last five years witnessed slow growth of investment in the economy. Gross fixed capital formation of the private sector, a measure of aggregate investment, declined to 28.6% of GDP in 2017-18 from 31.3% in 2013-14 (Economic Survey 2018-19).
2. With regard to output growth, we find that the monthly index of industrial production pertaining to manufacturing has registered double-digit growth rates only on two occasions during the period April 2012 to November 2019.
3. Regarding employment growth, the crux of the debate has been that employment, especially industrial employment, has not grown to keep pace with the rate of new entries into the labour market.

Way forward –

- Labour laws should be amended in a way that does not overlook the interest of labour. Progressive labour laws to create more jobs in the market.
- Revisit the Land Acquisition Act, a robust land acquisition policy which eases the process of acquisition is essential for Investment in Infrastructure and Manufacturing.
- Overall re-hauling of transport system through increasing the capacity of railways, highways and expressways.

## Conclusion

Going ahead, the Indian manufacturing sector provide an excellent opportunity to international investors to collaborate with existing businesses as most of the businesses have plans to expand through various options which will boost domestic capacity and also help the manufacturing sector in India to pick up pace which will eventually help in achieving the target of 5 trillion dollar economy by 2024.

**2. Credit availability is one of the most crucial factors in any industrial policy. In the light of this statement, examine the status of credit as an enabler and impediment of industrial growth in India.**

**Demand of the question** - Briefly write about the first statement of the question and then examine role of credit as enabler and impediment of industrial growth in India in light of the above given 1<sup>st</sup> statement of the question.

**Introduction**

The role of credit in development in general and industrial development in particular has seminal importance where world over financial policies have been designed and adopted as per the needs of countries to achieve rapid industrialisation.

**Body**

- Financial liberalisation as a part of the comprehensive reform programme was introduced in 1991 in India. The essence of the liberalisation programme was to ensure that the market plays a decisive role in allocating resources especially credit resources.
- In this regard, credit as an enabler of industrial growth can be seen from following points:
  1. India has a diversified financial sector undergoing rapid expansion, both in terms of strong growth of existing financial services firms and new entities entering the market.
  2. The sector comprises commercial banks, insurance companies, non-banking financial companies, co-operatives, pension funds, mutual funds and other smaller financial entities.
  3. The Government of India has introduced several reforms to liberalize, regulate and enhance this industry. The Government and Reserve Bank of India (RBI) have taken various measures to facilitate easy access to finance for Micro, Small and Medium Enterprises (MSMEs).
  4. These measures include launching Credit Guarantee Fund Scheme for MSMEs, issuing guideline to banks regarding collateral requirements and setting up a Micro Units Development and Refinance Agency (MUDRA). With a combined push by Government and private sector, India is undoubtedly one of the world's most vibrant capital markets.
  5. In 2017, a new portal named 'Udyami Mitra' was launched by Small Industries Development Bank of India (SIDBI) with an aim to improve credit availability to MSMEs in the country.
  6. According to CARE ratings, credit growth has even surpassed the growth in bank deposits (6.1 per cent), one of the major factors that constrained liquidity in the banking system in recent months where Large industries account for more than 80 per cent share in the total disbursement of credit to industries. This is followed by micro and small industries (13 per cent) and medium industries at 4 per cent.



But at the same time, since independence the underdeveloped credit sector was perceived to be the reason behind inadequate financing for industrial sector. Further, its role as an impediment of industrial growth can be seen from following points:

1. There seems to an asymmetry which is widening both in terms of the nature of financial requirements of the industrial sector and the financial institutions and agencies that emerged during the post-liberalisation period in India.
2. The cost of capital plays a key role in the process of industrialisation; as unavailability of affordable capital has often been identified as a key factor that causes adverse impacts. The cost of capital affects both the large and the small firms in different ways where in India the cost of capital has still remained high.
3. The size and depth of the corporate debt market in India continues to remain small in comparison to those in developing countries like Brazil and China. It is also small in comparison to several bank based financial systems like Germany and Japan.
4. Despite several policy measures to boost the performance of the equity market, the performance of the primary market has not been up to the desired level.
5. There has been a structural shift in bank credit from the industrial sector to the retail sector, according to CARE Ratings. The share of industrial sector in total outstanding credit declined from 40-45 per cent between FY10 and FY16 to nearly 30 per cent at present.
6. This shift, according to CARE, can be attributed to the change in focus of banks to lend to the retail sector, where the probability of delinquency is lower, compared to the industrial sector, which has relatively higher levels of non-performing assets (NPAs).

Way Forward-

- A necessary condition for the process of credit availability is the evolution of a deep and liquid corporate debt market.
- Harness household savings into risk capital for industrial growth where institutional intermediaries can be developed to tap these funds.
- For a knowledge-based banking and better management of information, it is necessary to tailor the new institutional funds to long term investments.

### **Conclusion**

Changes in the economic environment in which banks and businesses operate such as domestic and cross-border consolidation of the banking industry have heightened concern about the availability of credit to businesses. The panacea to the present challenges in industrial financing hinges on the ability to design an appropriate mix of the bank- and the market based systems of financing.

### 3. Do you think the vision of Atmanirbhar Bharat would be a game changer for the domestic industries? Substantiate your views.

**Demand of the question** – Illustrating upon the vision of Atmanirbhar Bharat, evaluate whether it would be a game changer for domestic industries while also suitably substantiating your views.

#### Introduction

Recently, the government announced the vision to make India a self-reliant nation (Aatmanirbhar Bharat) amidst the Covid-19 pandemic, based on the foundation of five pillars comprising economy, infrastructure, technology driven system, vibrant demography and demand.

#### Body

- In order to materialise this vision and provide a liquidity boost to the Indian economy for recouping with the loss caused due to the ongoing Covid-19 pandemic, the Government of India, has announced a special economic package of Rs. 20 lakh crores in five tranches
- The first tranche of the Stimulus Package is dedicated to support micro, small and medium enterprises "MSMEs". As part of the fourth tranche, the Government announced reforms to provide impetus to sectors including coal mining, minerals, defence civil aviation, atomic energy.

In this regard, the vision of Aatmanirbhar Bharat can be considered as game changer for the domestic industries due to the following factors:

1. A significant part of the economic dimension of "Atmanirbhar Bharat" is on increasing the competitiveness of Indian production and building connections to global value chains (GVCs). This implies a need to turn away from protectionist policies, while using the lessons from new industrial and trade policy.
2. Further, following measures have also been announced for MSME's-
  - a. Provision of Rs.3,00,000 crores collateral-free Emergency Credit Line for Businesses including MSMEs.
  - b. Provision of Rs.20,000 crores of subordinate debt for stressed MSMEs requiring equity support.
  - c. Equity infusion of Rs.50,000 crores for MSMEs with growth potential and viability through Fund of funds and encouraging such MSMEs to get listed on Stock Exchanges.
  - d. Introduction of a revised definition of MSME, thereby eliminating distinction between the manufacturing and service sector.
3. The changes in defence and government procurement policies are a clear indication. The obligation to display country of origin on consumer products is another good step to let the consumer decide.
4. MSMEs will benefit from an array of measures which include easy access to loans and de-risking the sector with a credit guarantee to help banks draw comfort.

5. The emphasis on technology-driven systems in administrative reforms, health and education and privatisation of public sector units except in strategic sectors will bring the required efficiencies, thus releasing resources over and above what has been allocated. Opening up of space and atomic energy for the private sector also entails a positive spill over effect of technology.
6. As the government trains its focus on local manufacturing of solar power equipment as part of its strategy to make an 'Atmanirbhar Bharat', Indian solar equipment manufacturers are toeing the line and scaling up capacities.

At the same time, the vision of Atmanirbhar Bharat faces following challenges with regards to domestic industries:

1. **Issues Related to Liquidity:** The package of Rs 20 lakh crore comprises both fiscal and monetary measures, where majority of the package is liquidity measures that are supposed to be transmitted by RBI to Banks and Banks to Citizens. This transmission wouldn't be as smooth owing to inefficient transmission of monetary policy.
2. **Lack of Demand:** The lockdown has lowered aggregate demand, and a fiscal stimulus is needed. However, the package, by relying overwhelmingly on credit infusion to boost the economy, has failed to recognise that investment will pick up only when people across income segments have money to spend.
3. **Lack of Backward and Forward Linkages:** Unless the rest of the domestic economy is revived, the MSME sector may face a shortage of demand, and its production may soon sputter to a close.
4. **Burgeoning Fiscal Deficit:** Government claims that the stimulus package is around 10% of India's GDP. However, financing it would be difficult as the government is worried about containing the fiscal deficit

Way Forward –

- To achieve real self-reliance, the country will also need to incentivise innovation, research and development to keep India at the cutting edge of the industry.
- These can be achieved either through the setting up of global innovation centres in India or through partnerships between leading Indian research academic institutions and their global counterparts.
- Building world-class infrastructure is extremely critical, and this requires huge investments. A strong framework for collaboration (e.g. contracting) and financing such investments needs to be established.

## Conclusion

By nourishing local manufacturers, supply chain and with diversification in services and products, the Atmanirbhar Bharat Abhiyan can be made a successful mission where Vocal for Local becomes a rallying cry towards making Indian industries globally competent.