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Make in India needs reforms, not hype

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The mega event Make in India held last week in Mumbai was notable for two things. First, a massive fire that destroyed the huge stage meant for the cultural extravaganza along with the business event. And second, a raft of promises from foreign investors to pour huge sums of money into this country to set up manufacturing units meant to provide job opportunities. The fire though disastrous demonstrated that despite the event being promoted by the Government itself, safety was a low priority for those who created the exhibition complex on Chowpatty beach. As for the investment promises, they showed that the Make in India jamboree could burn into ashes metaphorically unless the plethora of commitments are actually fulfilled by foreign firms taking part in the extravaganza.

As much as \$222 billion has been pledged in terms of investment by foreign companies during the event. Past experience shows that most of these will not fructify into actual manufacturing projects. This assessment is based on research by independent agencies that shows that only 20 per cent of commitments made at such events translate into actual investments. Studies by the Friedrich Naumann Foundation, in collaboration with the Cato Institute, reveal that conversion of pledges made at these so-called “investment summits” held periodically by state governments, ranges from one to 20 per cent. Even Gujarat’s bi-annual Vibrant Gujarat, attended by corporate leaders and bankers, has a conversion rate of only 13 per cent.

It becomes difficult to take seriously claims by officials managing the event that 80 to 85 per cent of the memoranda of understanding concluded there will convert into serious business. Though described as a great success, media reports quote foreign exhibitors as saying it was thronged by large crowds of Indians rather than foreigners who usually attend such events and will actually be making the investments. Clearly, the Make in India event was aimed largely at creating a media hype around the programme which has been backed personally by Prime Minister Narendra Modi. Very much in the style of his overseas diaspora rock concert-like events, the latest jamboree also had high-profile entertainers and dance performances to be watched by potential investors. It was this entertainment arena that literally went up in smoke.

At the same time, votaries of the programme can argue that the event may not turn out to be as successful as planned but the Make in India scheme has achieved its aims. The scheme is aimed at ensuring that foreign investors manufacture goods here rather than target the Indian market by products made abroad. In other words, the goal is to lure more foreign investment into the country. A worthy ambition but every Government in the recent past has been trying to do the same. Some Finance Ministers have gone on investment roadshows in different countries in the past, while even state governments have got into the act by sending delegations abroad to lure

foreign investment. Then there have been investment conferences being held by many states, including not only Gujarat but also West Bengal, Maharashtra and even Uttar Pradesh.

There is no doubt, however, that the Modi Government has been eminently successfully is luring more foreign investment into the country as foreign investment flows have gone up significantly over the past two years. FDI has risen by 23 per cent in 2014-15, and then by about 12 per cent in the first quarter of 2015-16. Most of these investments have been in the area of e-commerce as well as consumer electronics, where large imports are required for the manufacturing process.

Some of these investments have been in the pipeline already. In the case of the giant mobile phone manufacturer, Foxconn, which has till now only been located in China, the plans have been on the anvil for quite some time. This is because it has been facing problems in China and has been looking for alternative manufacturing locations. It is rarely that corporates take a view on investing millions of dollars simply because of a single programme, unless it provides massive benefits to the investor. The Make in India programme has identified 25 sectors where 100 per cent foreign investment is allowed and where efforts will be made to provide facilities to ease the problems of red tape that normally plague investors. This is a comfort level but not a massive benefit and most investments would have been in the pipeline for several years. At the same time, there is a likelihood that investors would have been waiting for the NDA to come to power before going ahead with their plans, as it had been widely expected that paralysis in decision-making would end and economic reforms would be carried out by the new Government.

In fact, there has been considerable disappointment that big reforms have not been rolled out even though efforts have been made to cut down on red tape. Investors are also concerned over the fact that not enough is being done to improve the ease of doing business. India remains at a lowly 130 in the global Ease of Doing Business rankings. Besides, even though the Prime Minister has repeatedly promised predictability in tax policies, the revenue authorities have recently sent yet another notice to Vodafone on the tax arrears case which sparked the retrospective taxation controversy. This is despite the fact that the case has been referred for international arbitration.

Even though foreign investment flows have risen substantially, this momentum may not be maintained unless the ingrained red tape and bureaucracy in the system is eliminated quickly. It must be recognised that India may be at the top of the global table for foreign investments right now but this is simply because China is slowing down. It does not mean that foreign companies prefer India to China as an investment destination. Unless the country's infrastructure, especially power, roads and telecom sectors improve dramatically, it will be a long time before it can catch up to the level of FDI flows in that country. Make in India is a useful marketing gimmick but it will have to be backed up by policies that make life easier for both domestic and foreign investors.