

MAKE IN INDIA

Vinay L. Deshpande

Chairman & CEO, Encore Software Ltd
Bangalore

Prime Minister Narendra Modi launched his *Make In India* international marketing campaign a little over a year ago, on September 25, 2014, to make India a major manufacturing hub in the world, and thus generate far greater employment than possible otherwise, essentially by the highly commendable aims of eliminating all unnecessary laws and regulations and by promising and ensuring time-bound project clearances through a single online portal. The campaign focuses on twenty-five major industrial sectors that hold tremendous potential for India, based on India's needs, capabilities, and achievements, and aims to facilitate investment, foster innovation, protect intellectual property, enhance skill development, and build world-class infrastructure. In the process, it is expected that the contribution of the manufacturing sector to the national GDP will rise from the current 16%, to 25% by 2022.

It is not the intention of this author to elaborate on the *Make In India* campaign, as there is plenty of information available on it from Indian Government sources as well as non-government sources, both online and offline, and indeed this author wishes the campaign a glorious success. Nevertheless, a few important suggestions need to be made that could have a multiplier effect on the outcome of this innovative campaign.

First of all, in my humble opinion, the *Make In India* campaign seems to be focused on MNCs, whether small or large, and attempts to encourage them to make in India whatever they make elsewhere, leveraging India's "3D" advantage of Democracy (largest in the world), Demography (largest youth workforce in the world), and Demand (huge domestic market), and also selling such products worldwide. While such manufacturing in India by MNCs will undoubtedly generate larger employment opportunities for the millions of working-age youth being added to the Indian economy every year, it might not be sustainable in the long term as it

would depend solely on the manufacturing priorities of the (MNC) parent(s), and might end up with large variations in the volume (and value) of manufacturing each year.

The fundamental question, though, is: where is the accent on fostering innovation, and arises from the fact that the focus on *Make* (manufacturing) rather than *Create* contributes to the Indian economy only the wages of the workers and managers, whereas profits from successful products accrue to the (MNC) parent(s). Witness, for example, what has happened in the Indian IT industry. Despite its experience gained over twenty five years, the industry still provides, by and large, software development services to its customers, whereas the intellectual property relating to those services resides with the customer who reaps huge profits from such intellectual property. Therefore, while India has admittedly received spectacular revenues from providing such services worldwide, I dare say that we seem to be satisfied with the tip of the iceberg, and are missing the larger gains by not creating our own intellectual property in software. Imagine the revenues of the Indian IT industry if it had been primarily based on own intellectual property (IP).

An example here might be appropriate. The per-person productivity of the Indian IT industry today is approximately US\$ 30,000 per year. By contrast, the per-person productivity of the Israeli IT industry is US\$ 300,000 per year! This, I believe, is because Israel has focused much more on innovation and creativity, and less on services. The Indian IT industry currently generates around \$120 billion annually; it is not rocket science to figure out what it could be if it was primarily based on IP, with the productivity per person rising to somewhere between US\$ 30,000 and US\$ 300,000!

Many will argue that we need to walk before we run, and the Indian IT industry has gathered (undoubtedly) valuable experience over the past 25+ years, that positions it very well for creating its own IP now. Indeed, there are some Indian companies that have created their own IP and are now leveraging that to generate far greater revenue than possible via pure services, but the number of such companies still remains miniscule compared to the size of the Indian IT industry. So what do we do to enhance this productivity? More on this a little later.

My apprehension is that *Make In India* seems to be following a similar strategy – get our manufacturing workforce employment opportunities now by attracting MNCs to manufacture their products in India, so that our workforce gains experience (and salaries!) over the next several years, and then our industry will have matured enough to hopefully undertake manufacturing of its own products. There are two problems with this line of thought:

First, India already has a mature manufacturing industry, whereas it did not have a mature IT industry 25+ years ago, so manufacturing does not need to follow the experience-gaining strategy of the Indian IT industry.

Second, the great majority of the Indian IT industry is made up of Indian-owned companies, whereas *Make In India* seems to be primarily targeting MNC manufacturers who wish to leverage our workforce and our market to maximize their own profits. Very few may leverage our workforce to *create* new products here and manufacture them for worldwide sale as GE Medical has done.

It would be unrealistic to expect that there could be many spinoffs of Indian companies from such MNC operations by Indians gaining experience and starting their own ventures as has happened in the Indian IT industry, because it is far more difficult to start a manufacturing business than a software development business.

Let me clarify – there is nothing wrong in promoting *Make In India*, but we need to make it an equal opportunity for both MNCs and domestic companies to *Make In India*. In our enthusiasm to attract MNCs to establish manufacturing in India, the issues and problems of existing domestic manufacturers should not be overlooked, and solutions must be found for those problems. Further, instead of a pure emphasis on *Make In India*, we need to widen the focus to also *Create in India*, because our youthful workforce is not just good enough to follow the instructions of their MNC bosses; they are equally well-suited to making what is designed or created in India!

Create In India

It is therefore felt that right from the start, *Make In India* should encourage *Create In India* along with *Make In India*, and just as it is envisaged to create infrastructure to facilitate *Make In India*, there should be concrete efforts to create the right ecosystem that would not just facilitate, but stimulate and encourage creation of new products in India. These would be products in all sectors of industry, without regard to the sector. Creativity and innovation will automatically lead to *Make In India*.

Creating the Ecosystem for *Create In India*

What is the right ecosystem for *Create In India*?

First, we have to create the mindset for innovation and creativity among our youth and businesspersons, so that no new or crazy idea is frowned upon or summarily brushed away, and so that people are encouraged to think outside the box without being laughed at. This needs to be done on a war footing, and I dare say that nothing less than a Ministry of Innovation needs to be put in place, at the levels of both central government and state governments. This Ministry would be mandated to do everything necessary to create an atmosphere in the country that nurtures innovative thinking right from the primary-school level through graduate and post-graduate education and throughout industry.

Although there would be myriad ways to promote innovation in academia and industry, one excellent example is the *Queen's Awards for Innovation* that the UK government announces annually, which are highly coveted and bring widespread recognition to the award-winning innovators and companies who then reap the fruit of that innovation in their respective markets. In a similar fashion, how about instituting the *Prime Minister's Award for Innovation* in our country, or perhaps the *President's Award for Innovation*, and likewise, the *Chief Minister's Award for Innovation* at the state level? These should carry a substantial cash reward and a distinctive logo and trophy that would be a pride to display and carry on company stationery and marketing collaterals.

Second, the Ministry of Innovation should create an Innovation Fund that is at least Rs. 10,000 or 20,000 crores, so that creative new ideas don't die of starvation of funds. The Department of Electronics and Information Technology has been talking about such a fund for the IT industry for years, but it does not seem to have seen the light of day yet. However, such a fund is required for all sectors of industry, and a Ministry of Innovation would probably be better suited to administering it. The reason a large fund is required, is that most of the time, even if a new idea results in a prototype, taking that product to market by putting the successful prototype into production, requires a huge amount of working capital that is difficult to source from the banks without the ability to provide collateral security. The Innovation Fund could in such cases extend an appropriate loan to the entrepreneur until the product becomes self-sustaining in the market.

Undoubtedly, some new products developed with the assistance of the Innovation Fund may fail in the market. It would be crucial, however, to not crucify the respective enterprise or entrepreneur for such failure, lest other innovators be discouraged in future. Failures should be treated as valuable learning and therefore as assets for the future. Only when entrepreneurs do not have the fear of failure, will they venture into risky but ground-breaking new ideas. Clearly, the Innovation Fund may lose the funds advanced to failed ideas or products, but those ideas or products that do succeed, will definitely make up for the ones that have failed.

Third, the Ministry should mandate that products/ideas successfully developed by availing of the Innovation Fund, shall have a reasonably sized *first order* from the relevant government department(s), so that the market development of that product/idea gets a kickstart. This is an extremely critical step in the market success of innovations.

Fourth, the Ministry should mandate that all products created in India, whether using the Innovation Fund or otherwise, shall get preference in government procurement, and shall have a minimum procurement quota of thirty or forty percent. This will encourage all manufacturers to create products in India rather than depend on imported designs and technology, wherever possible. More importantly, this will

encourage Indian industry to develop products for the unique needs of the Indian market, which could also help them enter other markets around the world.

Fifth, the Ministry, in consultation with the Ministry of Finance, should work out certain concessions in or exemptions from applicable taxes for products designed/created and manufactured in India. This would enable such products to compete effectively with imported products or other products made in India but developed elsewhere. This measure will help overcome the current spectre of an inverted duty structure that is discouraging manufacturing in India because it is actually cheaper to import such products.

A word about inter-ministry cooperation in the context of *Make In India* would not be out of place here. Historically, the Ministry of Finance has been always resisting tax concessions or exemptions due to the supposed loss of revenue from those respective taxes. It is high time that they look at the larger picture and realize that such tax concessions and exemptions would result in manifold growth in manufacturing which would in turn grow incomes manifold and thus compensate the exchequer by way of higher corporate and individual income tax collections. Consequently, Ministry of Finance truly has a huge role in *Make In India* and *Create in India*.

Sixth, the two Ministries should, in consultation with each other, work out innovative schemes for funding of working capital for new products that have been designed and manufactured in India, without the need for heavy collateral security. Perhaps the only collateral security could be the IP and/or product(s) manufactured. Why can't such schemes be considered as social welfare schemes, just like MGNREGA and others, but with a payback to the government from every product that succeeds, so that such funding is not always written off? In reality, even if a product fails in the market, it would have already generated considerable employment for its production, and would therefore serve the objective of generating employment just the same way as *Make In India* is expected to, and successful products would of course generate employment manifold.

In conclusion, I wish to submit that *Make In India* will be a many time larger success when it is inclusive of existing domestic manufacturers as well as of *Create in India*, and will result in at least two to five times the per-person productivity on average of the industries involved, and in some cases even ten times the present per-person productivity. To achieve this, government must have an open mind to the ideas suggested above as well as those that quite likely will emanate from industry as *Make In India* and *Create In India* are implemented, and be ready to implement changes/modifications swiftly.

* * *