Chinese slowdown: Opportunity to make “Make in India “really matter

Kanwal jeet, Assistant Professor

Chaudhary Devi Lal University, Sirsa

Abstract

Indian economy has been on the positive side of growth for quite some time now and has been the main source for tapping intellectual and skilled manpower for the top corporates all over the world. Indians are now at the pinnacle of corporate success; from Microsoft to Pepsi we have Indians at the helm of affairs at many of the Fortune 500 companies in the world. There has never been dearth of skilled and intellectual manpower in India but still we have not been able to convert that into the exponential growth of the economy as we should have done, while our neighbor China through its systematic and methodological approach over last few decades has transformed its economy and infrastructure considerably and is an economic juggernaut now, and is well on the way of becoming a super power. The main drivers of growth for China has been its manufacturing sector which has elevated China into an entirely new trajectory and made it the manufacturing hub for the world be it Apple or Nike, everyone is manufacturing their products in China and we find the “Made in China” tag on almost all the top branded products but India on the other hand due to its lackluster attitude, slow clearance speed and a web of archaic laws, regressive rules and regulations, is far behind in the manufacturing sector and has only been able to just lick the proverbial manufacturing pie. India, in comparison to China is not seen as a favorable investment destination. Keeping all that in mind India launched its “Make in India” campaign to portray itself as a favorable and safe investment and manufacturing destination the world over and to attract the foreign investment its way by providing a number of facilities such as speedy approval, less stringent rules and regulations etc. This paper is an attempt to understand the reasons for the phenomenal growth of Chinese manufacturing sector and what are the lessons we can take from that and moreover it attempts to understand the changes which are needed in the Indian setup to fulfill the aim behind this ambitious campaign and how we can transform it from a concept to reality.

Keywords: Make in India, Made in China, Archaic Laws, Fortune 500 Companies.

Introduction

With the aim of increasing the share of manufacturing from current 15% of the GDP to 25%, On 25th September 2014 the much hyped "Make in India" program was introduced by Indian Prime minister Mr. Narender Modi which includes major new initiatives designed to facilitate investment, foster innovation, protect intellectual property, and build best-in-class manufacturing infrastructure, and create a conducive environment for both domestic and international corporates to start their manufacturing in India. The major objective behind the initiative is to focus on 25 sectors of the economy for job creation and skill enhancement. Some of the sectors are: automobiles, chemical, IT, Pharmaceuticals, textiles, ports, aviation, leather, tourism and hospitality, wellness, railways, auto components, design manufacturing, renewable energy, mining, bio technology, and electronics. The initiative aims to attract capital and technological investment in India while aiming high quality standards and minimizing the impact on environment. Under this initiative apart from these 25 industries which have been prioritized, a web portal for the initiative was launched, prior to this the foreign caps in various sectors has been decreased. The application for license has been made online with the increased validity of a license to 3 years has been done, and a promise to relax the norms and tilting the regulatory framework in favor of the manufacturer has also been done. But the path of becoming a manufacturing hub on which India is trying to tread and take its baby steps, its neighbor China, has been a frontrunner from decades now and is already a proven destination and mecca for anyone looking for a safe place to manufacture their products. Chinese manufacturing industry is fourth among the manufacturing industries in the world behind USA, Japan and Germany. It is highly important industrial sector in China, producing 44.1% of GDP in 2004 and accounting for 11.3% of total employment in 2006. The six predominant industries in the manufacturing industry in China are petrochemicals, metallurgy, forestry, medicine, food and machinery. However, the electronic industry, medicine and the food segments have recently been rapidly gaining popularity. China's cotton textile industry is the largest in the world, producing yarn, cloth, woolen piece goods, knitting wool, silk, jute bags, and synthetic fibers, In addition to garments and textiles, output from light industry includes footwear, toys, food processing and consumer electronics. China is also the world's biggest producer of adult toys .With 70% of the worldwide adult toys production, generating about two billion dollars a year. The manufacturing industry forms the backbone of the Chinese economy. After China's entry into WTO in 2001 it has enhanced its capabilities leaps and bounds.

Make in India v/s Made in China

At the time when India unveiled its much hyped 'Make in India' dream of Prime Minister Narendra Modi, China silently unleashed its 'Made in China' programme to re-build its manufacturing hub. ‘Make in India’ and ‘Made in China’ sound similar in their perspectives. But, conceptually they are different. Diagonally, both are different in two ways. First, structurally ‘Make in India’ is the first stage for India to set up the manufacturing hub. ‘Made in China’ is the second stage for China after accomplishing the first stage of world’s biggest manufacturing hub. India has always been compared with China and South East Asian countries in the perspective of investment. Notwithstanding India’s huge domestic demand driven by large demography, its competitiveness for manufacturing is far below than China and South East Asian countries. After the appreciation of Chinese renminbi, China lost the paradise of low wage. China seems to vacate the area of low cost and volume production and shift to hi-tech production. China’s shift from volume production will be a boon for India to establish its global workshop with low wages. Secondly, the strategies, which both India and China will follow to woo investors, are different. While China believes in doling out more tax incentives to allure the foreign investors, Modi believes in gearing up a large and sustainable middle class market. He believes that expansion of manufacturing will open new opportunities for employment.

More employment means more income. This will translate into a transition of people from poverty to middle class and will help in enlarging middle class market. By this process, a cyclic demand will be created and will lead to a big and sustainable market. Modi does not believe in incentives. He says, ‘industrialist don’t come due to some fancy incentive scheme or that tax free. Incentives don’t work’. He believes that investors will come if the environment is growth oriented. He says, ‘We need to create development and growth oriented environment. This is government’s responsibility. In contrast, China gave thrust on incentives. Even at the first stage of building up global workshop in China, tax incentive was the main tool to woo the foreign investors. It ceded 50 per cent tax breaks to the foreign investors. In its second stage of ‘Made in China’s programme, China will accelerate tax breaks to encourage enterprises to upgrade their equipment and increase research and development to improve the manufacturing industry. Imported high- tech equipment will enjoy tax deductions and will have tax holidays.

GDP COMPARISON OF INDIA AND CHINA

The following figures give a brief idea about the disparities in the Gross Domestic Product which have emerged over period of decades between India and China so as to facilitate a better understanding and comparative platform is established to properly comprehend the contribution of the manufacturing sector in the growth of both economies. Figure1 depicts the GDP growth rate of both the countries from 1965 to 2009 and Figure2 shows the per capita GDP of both the countries from 1980 to 2008. Both the figures star contrasts as the GDP growth rate seems to be almost at par with each other at the end but the per capita GDP shows yawning gap with China taking a huge lead over India.

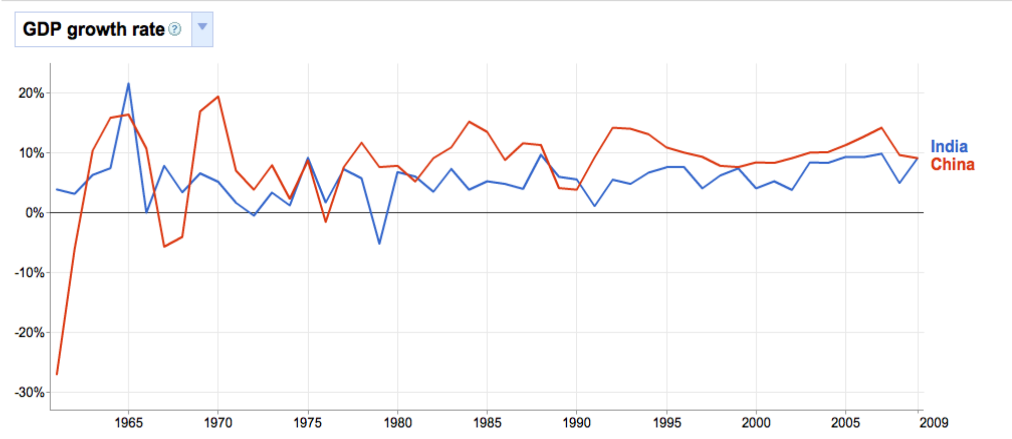

Figure 1

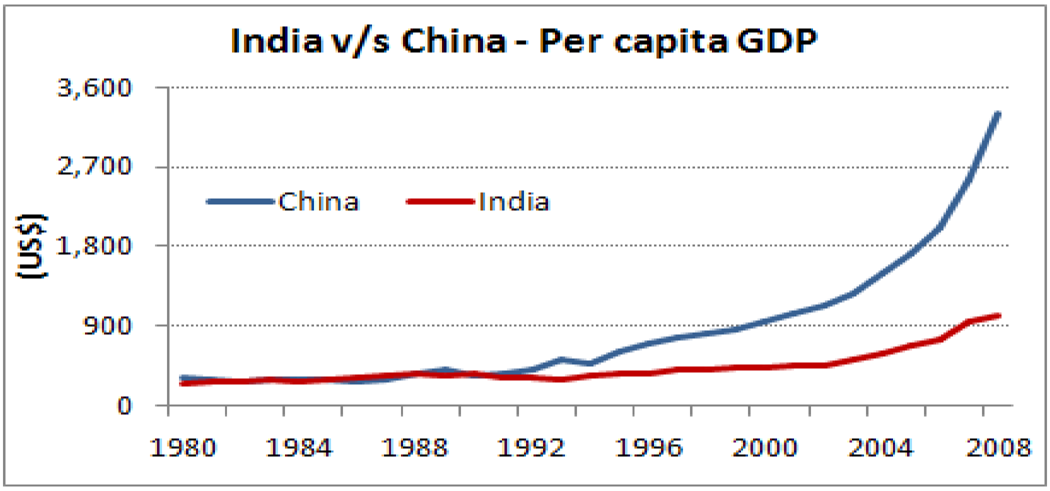

Figure 2

Things we can learn from China

1. High tax Incentives

One of the foremost and prominent reasons for the success of Chinese manufacturing sector is the availability of big incentives and prolonged tax holidays for manufacturing firms which works as a big facilitator and a starting point for entrepreneurs and corporates. Tax incentives leads to decreased manufacturing cost which in turn leads to higher profits, and profit is what an business strives for, China provides an opportunity for earning higher profits to firms through incentives and tax holidays which ultimately leads to more manufacturers and more manufacturing in turn leading to economic growth of China.

2. Ability to respond quickly

"China is very fast and efficient in the redirection of resources into higher education, economics, management, computer science, electronic and biotech engineering, and law," suggests Dewoskin. "It has a permissive and supportive policy to study abroad, coupled with an aggressive marketing and incentive programme to bring stronger graduates back," says Dewoskin. In contrast, India has yet to counter the problem of brain drain or promote itself as a destination for entrepreneurs who want to set up companies.

3. A passionate Diaspora

Much of the 60 million Chinese who live outside the country are economic forces to reckon with. But they also give back heavily to their country in terms of remittances and investments. China has recognized the importance of its Diaspora and has worked to cultivate it. The Chinese government has a special cabinet ministry to deal with the overseas Chinese matter. Incentives are offered to Non-Resident Chinese to come to China and participate in various socio-economic activities of the Mainland. The current economic boom in southern China, for example, is largely due to the capital investments made by overseas Chinese entrepreneurs. In the case of India, there has been a lack of consistency in government policy towards Non-Resident Indians. India thus needs to harness the knowledge and capital of the Diaspora and develop plans on how NRIs can contribute to the country's economic growth.

4. A consistent and thoughtful marketing effort

China has sold itself on a single point: the size of its market. "Every businessperson of any size anywhere in the world knows what the number 1.3 billion means: China's big market. How many know the population of India? Chinese leaders discarded their Mao suits immediately and put on coats and ties, talked the language of commerce, organised thousands of delegations, hosted endless conferences and exhibitions, and laboured to convince foreign investors that China was pro-business, stable, and committed to reform and an open-door policy," suggests Dewoskin. According to him, leaders like Zhu Rongji mounted the world stage as a leader who was all about business and nothing else. In contrast, India's corporate leaders agree that the country's politicians have never sold the country. Much of the investment flowing into the country today is on the back of India's reputation as a place for skilled people who have proven themselves in the information technology services sector.

5. Creation of zones and infrastructure for businesses

China has created many flexible investment zones, export processing zones, free trade zones, high tech zones, complete with tax incentives and good infrastructure. India has tried to replicate this with its creation of export processing zones and software technology parks. But the difference lies in some key areas like creation of infrastructure and quick approval of investment proposals.

6. The business-above-all attitude

"China has had the good fortune of having Hong Kong and Taiwan outside its political control for decades or centuries but within China's ethnic and investment family," says Dewoskin. "China always set aside political, social, and ideological differences in the interest of getting investment, technology, and export channels," he adds. However, in India, trade and economic growth have never been paramount. India's economic growth has always given in to the sentiments of the local industry; like in cases where foreign investments have been curbed or restricted.

Current Scenario of Chinese Manufacturing

For the first time in decades the Chinese economy has slowed down and showed sign of a downward trajectory, with rapid industrialisation and modernisation for decades the slowdown was inevitable, the major reasons for slowdown can be summed up as below:

1. Rising factor costs

Rising wages and the appreciation of the renminbi have dampened China’s exports in recent years and focused global attention on its future viability as a low-cost manufacturing centre. Most multinationals that produce labour-intensive goods, like textiles and apparel, are actively seeking to diversify beyond China to reduce costs and mitigate political and supply-chain risks. China-based processors of goods such as beverages, fabricated metals, food, and tobacco are also concerned about rising costs, including those for packaging. Yet their regional focus makes this less a global competitive issue and more a question of which players in the value chain will create the most value.

2. Rising consumer sophistication

McKinsey research suggests that by 2020, the income of more than half of China’s urban households, calculated on a purchasing- power-parity basis, will catapult them into the upper middle class— a category that barely existed in China in 2000. The members of this group already demand innovative products that require engineering and manufacturing capabilities many local producers do not yet adequately possess. An executive of a Chinese television-panel maker, for example, recently confessed that his company cannot fully meet the requirements of high-end customers and that the quality of his company's flat-screen panels is exceeded by that of products from fast-moving South Korean competitors. China's automakers face a similar challenge: consumers perceive their brands as lower in quality, even compared with foreign brands assembled in nearby Chinese factories. These issues confront players in a range of other sectors—from appliances and chemicals to electrical and office machinery, pharmaceuticals, telecommunications gear, and transportation equipment. What they have in common is that they compete on the strength of their R&D, technology, and ability to bring customers a steady stream of new products and services. Rising consumer expectations will require even food and beverage players to raise their game on freshness and regulatory compliance, areas where China's standards still lag behind Western ones.

3. Rising value-chain complexity

Another big challenge is coping with the rising value-chain complexity that accompanies consumer growth. Greater affluence and rapid urbanization require product makers to manage, make, and deliver an array of increasingly diverse and customized products to increasingly remote locations. Between now and 2015, for example, almost two-thirds of the growth in demand for fast-moving consumer goods will come from smaller (Tier-three and Tier-four) cities, which outnumber their Tier-one counterparts, such as Beijing or Shanghai, by a factor of 20. Product proliferation and booming e-commerce also contribute to value-chain complexity. Business-to-consumer online sales in China are expected to grow by 45 percent a year from 2010 to 2015. For product makers, this means smaller and smaller lot sizes and deliveries to households farther and farther "out there." During Chinese festival periods, the supply chains of many companies already creak under the strain of online orders. Demanding consumers contribute to supply-chain headaches, as well. Since many retailers in China accept cash-on-delivery payments, it's not uncommon for shoppers to pit online retailers against one another by ordering, say, three identical products from three retailers—and refusing delivery to all but the first to arrive. Such issues are relevant for technology companies and others responding to the Chinese consumer's increasingly sophisticated tastes. But rising value-chain complexity is also a worry for manufacturers of more labour-intensive goods, given the sheer variety of products they make, and for regional processors, whose logistics networks are affected by urbanization and booming infrastructure development.

4. Heightened volatility

The uncertain global economic environment since 2008 has complicated life for manufacturers everywhere. Those in China have arguably been the most severely affected, given the country's status as the workshop of the world. In China's steel industry, for example, annual demand growth slowed to 3 percent in 2012, after a decade of double-digit increases. The result has been lower capacity utilization, cutthroat competition, and a 56 percent decline in average profit margins for the industry from 2010 to 2012. Similarly, in China's massive auto industry, annual growth rates over the past five years have varied from 7 percent to 52 percent. Appliance and electrical-machinery producers have also experienced strong demand fluctuations, exacerbated by gyrating overseas demand. Volatility at such levels makes planning difficult for China's manufacturers. This is problematic for companies that routinely make large, long-lived capital expenditures whose returns are crucial determinants of performance.

Conclusion

The Make in India campaign definitely enables us to optimistically look at creating India into a manufacturing hub and the advantages being capital inflow, employment generation, better economy hence overall development with its focus primarily on foreign investment and foreign capital to boost manufacturing industry will achieve its height if we take lessons from what our neighbour China has and is doing right and also we need to seize the opportunity which are being presented to us in form of certain slowdown in the Chinese economy. Overall we can say that Make in India is a much needed initiative to boost the economic growth of our country and can help us achieve our long term growth objectives but it would be beneficial only when we are able to deliver upon all the promises which we have done to the corporates through this initiative.

References

Bal, Monalisa., *Make in India& Higher Education Policy: The way forward,* Indian Journal of Applied Research, Volume: 4/ Issue: 11/ November: 2014.

Mitra, Debasis., Garg, Poonam; *Can Make in India Campaign will be able to promote small scale Industries of India,* Global Journal for Research Analysis, Volume: 4/ Issue: 1/ January: 2015.

http://www.thehindu.com/sunday-anchor/sunday-anchor-make-in-india-vs-make-in-china/article6533575.ece

http://www.bloomberg.com/bw/articles/2014-11-06/india-vs-dot-china-the-battle-for-global-manufacturing

http://www.theshillongtimes.com/2014/10/02/make-in-india-versus-made-in-china/

http://www.business-standard.com/article/economy-policy/here-s-how-made-in-china-scores-over-make-in-india-114092600461_1.html

http://www.millenniumpost.in/NewsContent.aspx?NID=71130 http://www.businessworld.in/news/economy/make-in-india-vs-made-in-china/1550000/page-1.html

http://www.quora.com/What-is-the-difference-between-Made-in-India-and-Make-in-India

http://www.asiatradehub.com/china/manu.asp

http://www.thechinaperspective.com/topics/industry/china-manufacturing/

http://en.wikipedia.org/wiki/Industry_of_China

http://www.bloomberg.com/bw/articles/2014-03-24/why-chinas-manufacturing-sector-has-hit-a-wall

http://www.mckinsey.com/insights/manufacturing/a_new_era_for_manufacturing_in_china

http://www.makeinindia.com/policies/

http://www.makeinindia.com/policy/new-initiatives/

http://www.makeinindia.com/sectors/

http://www.makeinindia.com/live-projects-industrial-corridor/

http://www.dipp.nic.in/English/default.aspx

http://www.dmicdc.com/

http://www.investindia.gov.in/

Figure 1- http://www.freakonomics.com/wp-content/uploads/2011/09/indiachinagrowth.png

Figure 2- https://qph.is.quoracdn.net/main-