Special Report **India and Globalisation**

Indian business & finance

Has the 'Make in India' campaign run out of steam?

Economic slowdown hampers New Delhi's flagship drive to boost manufacturers

Smartphone assembly plants have thrived under the 'Make in India' campaign © LightRocket via Getty Images

Benjamin Parkin in Mumbai YESTERDAY

Ravi Shankar Prasad, India's electronics minister, last month made an announcement that he hoped would launch a new era for Indian manufacturing.

Finland's Salcomp, the world's largest maker of smartphone chargers and a supplier to Apple, would buy a plant previously run by Nokia that closed in 2014 after being hit with a Rs50bn ($702m) tax bill.

The plant was "going to get life again", Mr Prasad said, adding that the move would create 10,000 jobs. Production is due to restart by March.

In reviving the Nokia plant, Mr Prasad and Prime Minister Narendra Modi hoped to signal the end of a period where many Indian officials have been less than welcoming to foreign investors, with the Nokia case only one among several well-publicised tax disputes.

Under Mr Modi, brands such as Apple and Xiaomi have increased production in India, while Samsung has invested in what it says is the world's largest smartphone plant near New Delhi.

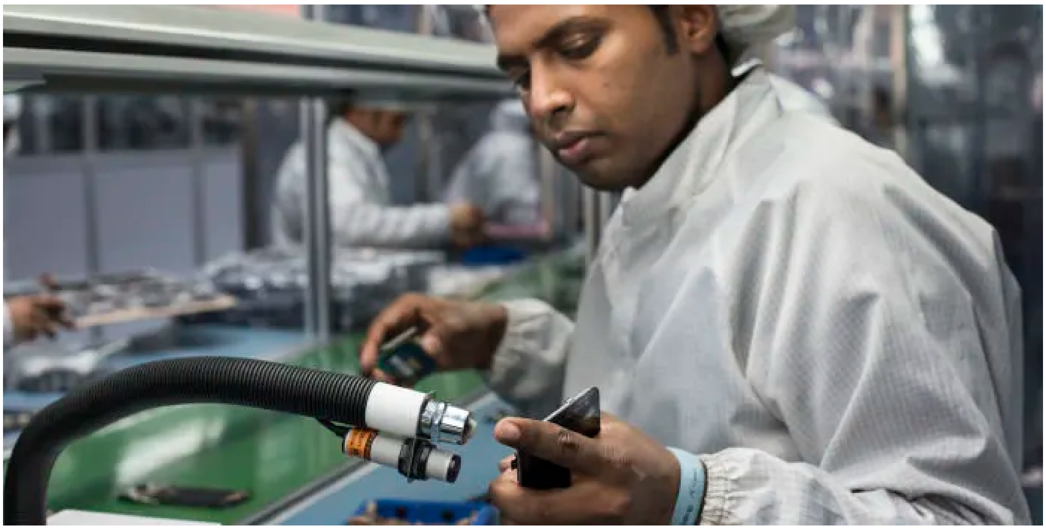
These are among the most notable successes of the prime minister's "Make in India" campaign, which promises manufacturers setting up in India everything from financial incentives to less red tape and intellectual property protection. They, in turn, can take advantage of India's young workforce, low prices and enormous domestic market.

India has advantages such as competitive prices and easy availability of skilled workers

But beyond pockets of success such as smartphone production, some manufacturers and analysts fear that "Make in India" is struggling to live up to its lofty expectations. Manufacturing as a share of Indian gross domestic product has stagnated at 15 per cent, despite Mr Modi's aim of increasing it to 25 per cent. Foreign direct investment into manufacturing — $8bn during the year to March — is lower than in 2015, after the prime minister's first year in office, according to India's central bank.

The strain has been exacerbated by an economic slowdown in which GDP growth slipped to 4.5 per cent in the quarter ended September — the lowest in six years. That has had a knock-on effect on manufacturers, dragging down everything from car sales to freight traffic.

"I don't think there's a policy bullet that can quickly fix this," says Mansi Kedia, a researcher at the Indian Council for Research on International Economic Relations, a think-tank. "It requires a lot of general change in sentiment."



India has advantages over some rivals such as competitive prices and easy availability of skilled workers © Miguel Candela/SOPA Images/LightRocket via Getty Images

Harsh Goenka, chairman of the RPG Group, which runs India's largest tyremaker and a joint-venture with a foreign manufacturer making and exporting precision engineering parts, says India has advantages such as competitive prices and easy availability of skilled workers.

But he says RPG Group has also cut investment and delayed procurement of machinery. The conglomerate's construction arm recently stopped work on a partially-built consumer-goods factory after its client abandoned the project amid the slowdown. "The story today as far as manufacturing in India is fairly grim," Mr Goenka says.

" 'Make in India' has, I would say, partly lost its steam. It started off very well, in a very noble way. But we see that not enough is happening . . . I feel that there's a large missed opportunity."

63rd

India's position in the World Bank's ease of doing business rankings

Among the complaints are that productivity remains low, and that — despite the government's investments — infrastructure such as roads and power supply are inadequate. Mr Modi's government has sought to address these and other concerns, with India under his watch climbing from languishing around 140th place in the World Bank's ease of doing business rankings to 63rd this year.

His government in September said it would cut corporate taxes for new manufacturing companies to an effective rate of 17 per cent, putting India on a par with rivals such as Singapore.

But manufacturers and analysts say that other areas remain unaddressed, such as labour and land acquisition laws that they argue make establishing and expanding factories prohibitive. That has prompted manufacturers that are leaving China due to the tariff war with the US to favour relocating in countries such as Vietnam and Bangladesh over India, they say.

17%

Effective tax rate for manufacturing groups that set up in India

The corporate tax cut is helpful, but "there are still many other costs of doing business", says Arindam Bhattacharya, managing director at Boston Consulting Group. "There are multiple issues that [India needs] to address."

Even the growth in smartphone production has been largely centred on assembling parts that were made elsewhere, which results in India continuing to miss out on a crucial slice of the value chain, critics say.

Some manufacturers remain more bullish, however. Ankit Agarwal, chief executive of Sterlite Technologies' telecom products business, recently opened a $100m plant producing glass for fibre-optic cables near Mumbai. Thanks to government incentives targeting high-tech manufacturing, the company is aiming to boost exports of the material to telecoms companies globally.

"People complain about the problems," he says. "You don't hear about Indian manufacturing products being shipped all around the world. To that extent we're proud [to export globally]."