

NARENDRA MODI ISSUES A 'MAKE IN INDIA' PLEA TO BUSINESS

By Amy Kazmin in New Delhi



Founded in 1983 to supply dials to India's state-owned watchmaker, KDDL is a tiny Indian outpost in a global watch supply chain dominated by China, Hong Kong and Switzerland.

From its four Indian factories, which together have about 800 workers, the Chandigarh-based company supplies \$20m worth of components annually to high-end global watchmakers, mostly in Switzerland.

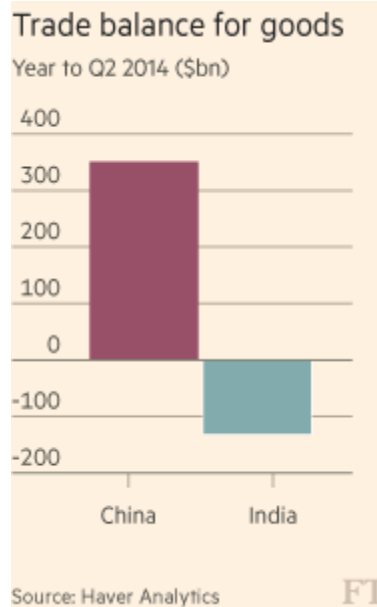
But with rising wages in China – which exported 662m watches last year – Yasho Saboo, KDDL's chief executive, senses new opportunities. "Everybody in the watch business worries about the rising costs in China and over-dependence on one geography," he says. "Over the next decade, India would be the most natural place for the watch industry cluster to move."

In New Delhi's halls of power, manufacturing in India is certainly an idea whose time has come. On Thursday, Prime Minister Narendra Modi launched the "Make in India Campaign", setting his sights on raising manufacturing's share of Indian GDP to 25 per cent, up from 15 per cent, to create jobs for the more than 12m young people entering the country's labour market each year.

In an impassioned speech broadcast to invited business guests in India and Indian embassies abroad, Mr Modi sought to persuade sceptical international companies, and weary domestic entrepreneurs, that India can be a competitive global manufacturing hub. He pledged to provide "efficient and effective" governance that facilitated – rather than obstructed – job-generating industrial investments.

“Those who feel India is a big market never think about whether the citizens have purchasing power or not,” he said. “It is our collective responsibility to work together so that the poorest of the poor get employment and our growth trajectory will move ahead.

“When the government becomes a facilitator, we can achieve everything we want to. We have no dearth of potential.”



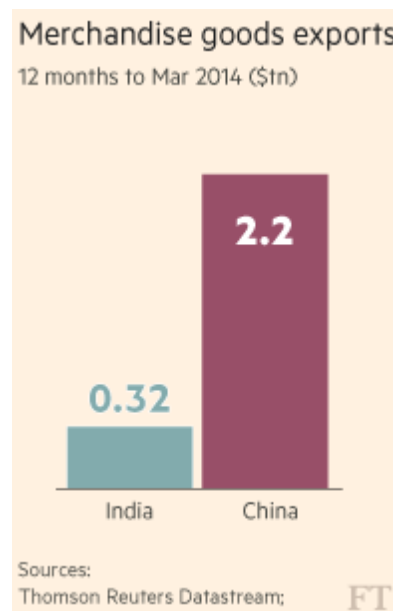
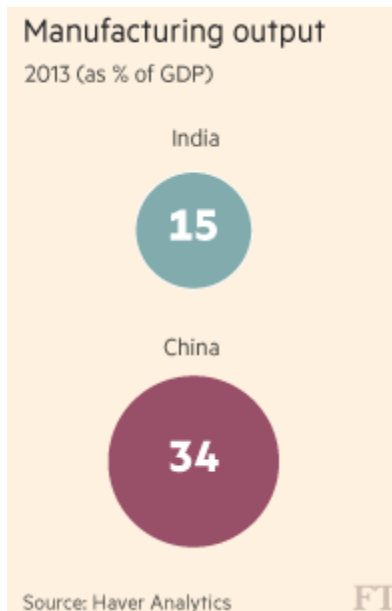
India is a formidable global supplier of IT-enabled services. But with its overstretched infrastructure, restrictive labour laws and notorious bureaucracy, it has struggled to find a role in the global supply chain of manufactured goods, despite its huge young population.

India’s share of world exports in 2013 was just 1.7 per cent, up from 0.5 per cent in 1990 but far behind the 11 per cent of China, where manufacturing accounts for 34 per cent of GDP.

With its manufacturing sector stunted, India imports huge quantities of consumer goods to satisfy its increasingly affluent middle class, fuelling a widening trade deficit.

Chanda Kochhar, managing director of ICICI Bank, said that on current trends, India’s imports of electronic goods would overtake its annual oil imports within six years.

Since taking power in late May, Mr Modi’s administration has put a renewed focus on manufacturing, first tackling the niggling regulations and reporting requirements – and obstructive bureaucratic mindsets – that have underpinned India’s poor rankings on international “ease of doing business” surveys.



Nirmala Sitharaman, commerce minister, said New Delhi was determined to change its notorious reputation for greeting potential investors with “red tape” rather than a “red carpet”.

Yet luring manufacturing investments will take more than mere tinkering with government processes. At Thursday’s event, Mukesh Ambani, the industrialist, urged the government to be “open to capital and expertise from all over the world”. Cyrus Mistry, chairman of the Tata group, said India had to upgrade physical infrastructure, ensure cost-effective energy and logistics, and “improve our people’s employability”.

Some economists are pessimistic. Jahangir Aziz, chief India economist at JPMorgan, warned the entire focus on the “Make in India” drive was misguided, given a global excess of manufacturing capacity and changing patterns of demand in developed markets, whose ageing populations had a growing need for services such as healthcare.

“India has a comparative advantage in services – that’s where all your value-added is,” Mr Aziz said. “We are choosing to run after something where all the odds are stacked against us.”

But others look to India’s manufacturing success stories – such as the pharmaceuticals industry, now an important supplier to global markets including the US, and its growing automotive exports – as a sign India can compete if the government provides the stable policies and better infrastructure Mr Modi has promised.

Volkswagen, for example, set up a factory in India to produce vehicles for the domestic market but found cars customised for India appealed to buyers in other emerging markets, such as Mexico and South Africa. Today, half the 120,000 cars Volkswagen makes in India each year are exported. “Positive sentiment has been created but they have to create a positive environment,” Mahesh Kodumudi, Volkswagen’s India president, said of Mr Modi’s administration. “If the government creates the environment, industry will do the rest.”