

# Poke Me: 'Make in India' -- Are sweet dreams made of this?

8 Oct, 2014, 09.03PM IST



It is still early days, and so we will have to wait and watch if the 'Make in India' campaign will result in 'Made in India' becoming a global brand.

## **ET SPECIAL:**

*This week's "Poke Me", invites your comments on 'Make in India': Are sweet dreams made of this?' The feature will be reproduced on the edit page of the Saturday edition of the newspaper with a pick of readers' best comments.*

*So be poked and fire in your comments to us right away. Comments reproduced in the paper will be the ones that support or oppose the views expressed here intelligently. Feel free to add reference links etc, in support of your comments.*

***By Maitreesh Ghatak***

Indians who swear by [China](#) belong to two groups who at first glance could not be more dissimilar: businessmen and Maoist rebels. If you don't like the status quo you could either plot a revolution, on which there is no greater authority than Mao. Or you could try growth through pro-business reforms, for which the world expert is Deng.

The 'Make in India' [campaign](#) is clearly influenced by the Chinese model of economic governance that is all about inviting FDI, cutting red tape, making sure workers work without

creating trouble, farmers give up land when business needs it, and keeping in check pesky environmental activists. If income growth is indeed the objective, then the Chinese model of authoritarian economic governance does have some appealing features.

However, what is often not recalled is that the Chinese have a strong system of social security and universal access to health and education. The kind of extreme poverty [India](#) is familiar with is absent, and overall measures of education and health are much better.

Therefore, it is strange to expect that one can simply borrow the authoritarian model of economic governance without designing policies through which the benefits of growth are distributed, and that somehow combining India's chaotic but vibrant democracy with the Chinese centralised model of economic governance will achieve the best of both worlds, namely, political freedom and economic order. As in the proverbial story of the glamorous dancer proposing to the well-known writer about having a child who would combine the former's looks and the latter's brains, it could go the *other* way.

Turning from possibilities to facts, the last years of the UPA did see the Indian version of stagflation - low growth and high inflation -- and a sense of policy indecisiveness despite a good record earlier, and voters gave [Narendra Modi](#) a decisive mandate. Given India's democratic system, of which we are all justly proud, unless the ordinary citizen experiences 'Achhe din' within a reasonable time her support will waver.

Modi is too astute a politician not to realise this. So what is his economic gameplan? And what role can 'Make in India' play in it? In particular, what is the basis for assuming that increases in FDI will translate to higher growth *and* poverty reduction?

First, there is very little evidence that FDI has an unconditionally positive effect on growth in India or elsewhere. What is known is that a country's capacity to take advantage of FDI is governed by the quality of its institutions, such as how developed its financial markets are. Therefore, without deep policy reforms, as opposed to the process reforms that the 'Make in India' campaign seems to emphasise, it is not clear how much impact even substantial increases in FDI will have on overall growth in India, especially in light of how small FDI is relative to the size of the Indian economy.

Second, there is very little evidence in the Indian context that higher growth in income leads to significant growth in employment or wages, or a significant reduction in poverty, the key determinants of 'Achhe din' for the masses. To measure this, people use what is called the growth elasticity of poverty - dividing the rate of decrease in poverty by the rate of increase

in income. India's performance in this respect during the post-liberalisation era has been worse than that of China and other comparable countries.

Indeed, if one looks at the Gujarat model of development, it is clear that the impressive growth rates did not translate into a corresponding change in human development indices. However, this is largely true of India during the UPA regime as well: despite a slew of anti-poverty programmes, real GDP increased at the rate of 7.6% per year, whereas the rate of decrease in poverty was only 2.2% per year during 2004-2013, and improvements in many of the development indicators were miniscule.

According to latest estimates, in 2011-12, 29.5% of the population - more than 350 million Indians -- lived below the poverty line. For them, the speed of benefits from economic reform trickling down through employment generation and rise in real wages has been slow. Moreover, the demands of industrialisation has created pressure on land, forest and mining resources, often bringing big business in conflict with the traditional livelihood of rural communities.

To fulfill the aspirations of the millions who voted for change, falling back on the trickle-down theory won't work. Structural reforms are needed to facilitate growth, make it broad-based, and to improve the efficiency and accountability of anti-poverty programmes. In this regard, the Pradhan Mantri Jan Dhan Yojana (PMJDY), aimed at facilitating access of banking services to the poorer sections, is a welcome move. But that aside, it is not clear either from the Gujarat model, the recently presented budget, or the 'Make in India' campaign, how the transition from rhetoric to results will work out.

It is still early days, and so we will have to wait and watch if the 'Make in India' campaign will result in 'Made in India' becoming a global brand, or whether we'll be stuck with the more familiar 'Mess in India'.

Link: <http://economictimes.indiatimes.com/opinion/poke-me/poke-me-make-in-india-are-sweet-dreams-made-of-this/articleshow/44761122.cms>