WHITHER THE "MAKE IN INDIA" POLICY FOR PROMOTING INDIA'S MANUFACTURING INDUSTRY

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SUMMARY

- In the "Make in India" policy for promoting the manufacturing industry, Prime Minister Narendra Modi's first administration set the following targets: an increase in manufacturing industry to account for 25% of GDP by 2022 and the creation of 100 million new jobs in 5 years. The administration implemented initiatives, such as deregulation and the introduction of the Goods and Services Tax (GST) to improve the business environment, but it carried out few of direct reforms that could promote Make in India, which has made the quantitative targets achievement difficult.
- One of the reasons for this was the lack of specific incentives for promoting manufacturing by the central government.
- The second Modi administration[1] has announced that it will reduce the corporate tax rate by approximately 10% and implement other such measures to make the business environment more attractive. Additionally, the government's new industrial policy, scheduled for announcement in 2020, will include tax benefits and human resource development measures for priority industries. The administration is to boost domestic manufacturing by introducing the phased manufacturing programme (PMP) in the EV and battery manufacturing segments, on top of the electronics industry.

The "Make in India" policy, which was announced in September 2014 by the first administration under Prime Minister Narendra Modi, is an industrial policy for promoting manufacturing in India with the aim of making India a hub for global R&D and manufacturing. However, a number of structural challenges in India impede the first Modi administration from producing outstanding results. This report reviews and evaluates the administration's series of reforms centered on this policy, and provides an analysis of how the second Modi administration is trying to overcome these challenges to realize the vision of Make in India.

1. EVALUATION OF REFORMS UNDER FIRST MODI ADMINISTRATION AND MAKE IN INDIA POLICY

1-1 Reforms focused on improving the business environment

The various reforms by the first Modi administration were concentrated on the business environment improvement (Figure 1). For example, the introduction of a nationwide Goods and Services Tax (GST) in July 2017 unified the types and rates of indirect taxes, which had been different for each state. The resulting greater

[1] First Modi administration: May 2014–May 2019, second Modi administration: scheduled to serve for five years; started May 2019.

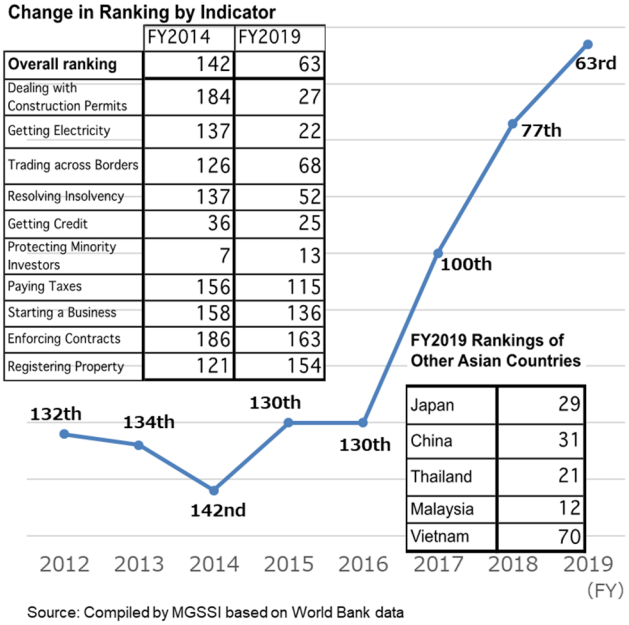
logistics efficiency as well as interstate taxes[2] elimination, in particular, are being regarded highly in India and abroad. Bad debts accumulated mainly by state-owned enterprises had been also a heavy burden on the Indian economy, but the enactment of the Insolvency and Bankruptcy Code 2016 (IBC) in December 2016 has facilitated bankruptcy proceedings and the processing of cases is moving forward quickly. According to the World Bank's "Ease of Doing Business Index", which is used by the Modi administration as an indicator of the progress of its reforms, India's ranking rose from 142th in 2014, to 63rd in 2019 (Figure 2), attesting to the progress of the country's reforms.

Figure 1: Progress on major reforms and schemes under the first Modi administration

Initiative	Progress	Remarks
Administrative reforms, including simplified investment procedures	◎	Significant progress achieved
Bank accounts Opening for all households	◎	360 million accounts
Good and Services Tax (GST) Introduction	◎	Historic reform
Insolvency and Bankruptcy Code 2016 enactment, speeding up bankruptcy proceedings	◎	Effects beginning to appear
Digital India (national ICT policy)	◎	Significant advancement
Clean India Mission (installation of toilets in all households)	○	90% of target achieved
Deregulation of foreign investment	○	Expansion of target industries
Startup India (entrepreneurship support)	○	Sharp increase in number of entrepreneurs
Make in India (promotion of manufacturing industry)	△	Difficult to achieve targets
Measures to curb black money (demonetization of large denomination banknotes)	△	Triggered an economic slowdown
Skill India (vocational training programs)	△	700 million people are training.
Housing-for-all initiative (provision of housing for all households)	△	30% of target achieved
Infrastructure development	△	Many projects behind schedule
Transformation of 100 cities into smart cities	△	Implementation going slowly
Revision of Land Acquisition Act	×	Impacted by political situation
Labor law reforms	×	Impacted by political situation
Job creation	×	Increase in unemployment rate

Note: Assessment of progress is determined by the author.
Source: Compiled by MGSSI based on ICEA, MeitY, IAMAI, and other data

Figure 2: Change in India's ease of doing business



Source: Compiled by MGSSI based on World Bank data

That said, among the three major reforms proposed by Prime Minister Modi when he took office, namely, (1) the introduction of the GST, (2) revision of the Land Acquisition Act, and (3) labor reforms, only (1) has been actually implemented. The remaining two, as discussed in the following sections, have not been fully realized, affected in part by the political situation, and the hurdles for these reforms remain high.

1-2 The Make in India policy and its goals

The Make in India manufacturing promotion policy, which was announced in September 2014 as a key initiative of the first Modi administration, could not achieve the initially expected level of results. This industrial policy being promoted by Prime Minister Modi aims to turn India into a global hub for R&D and manufacturing. Quantitative targets of the policy included an increase in the ratio of manufacturing as a percentage of GDP[3] from approximately 17.2% in 2014, to 25% by 2022, and the creation of 100 million new jobs within a period of

[2] The main effects have been: (1) an increase in the government's indirect tax revenues due to the tax base expansion; (2) improved compliance with the tax system; (3) formation of a single domestic market with the simplification and clarification of the system for all indirect taxes; (4) the elimination of interstate taxes has resulted in; the elimination of interstate checkposts, a shorter time required to move goods, and the supply chain efficiency improvement.

[3] Value based on gross value added (GVA). GDP = indirect taxes + subsidies = GVA

five years. The initiative also identified 25 priority sectors, including defense and electronics (Figure 3), for which the government sought to increase manufacturing industry employment and exports.

Manufacturing as a percentage of GDP, however, hardly changed during the five years of the first Modi administration, and had remained at 18% as of 2019. As it stands, the 2022 goal of 25% looks difficult for India to achieve. New job creation numbers are also significantly below target,[4] partly due to the slowdown of the economy following the demonetization of large denomination banknotes.

Figure 3: Make in India 25 priority sectors

1	Automobiles	14	IT and BPM
2	Automobile components	15	Construction
3	Chemicals	16	Renewable energy
4	Electronic systems	17	Electrical machinery
5	Defence manufacturing	18	Food processing
6	Aviation	19	Mining
7	Railways	20	Biotechnology
8	Oil and gas	21	Pharmaceuticals
9	Ports & shipping	22	Media and entertainment
10	Tourism & hospitality	23	Roads and highways
11	Space	24	Textiles and garments
12	Thermal power generation	25	Leather
13	Wellness		

Source: Created by MGSSI based on data from the Indian government's Make in India website

1-3 India's structural issues present difficulties for achieving Make in India targets

Why did it become difficult for the first Modi administration to achieve the quantitative targets of the Make in India policy? In the background to this is the major impact of structural challenges in India.

(1) Government inefficiency

The first Modi administration announced a number of schemes (Figure 1), including Make in India, Clean India, and Skill India, but few were executed as planned. The "Government Effectiveness" point indicator, which is one of the dimensions of the Worldwide Governance Indicators[5] published by the World Bank, has been gradually improving for India since Modi became prime minister, rising from -0.21 in 2014 to 0.28 in 2018. However, the level is still low compared to other countries (for example, 0.48 for China and 0.35 for Thailand in 2018).

(2) Lack of incentives at the national level

The Make in India policy lacked concrete incentives at the national level, and thus failed to provide strong stimulus. This is because the states have considerable power in India and the state governments where are not led by BJP or its allies, making it difficult for the central government to implement nationwide policies. Industrial policies, thus have been basically entrusted to each state.

(3) Low competitive edge and protectionism

In the Index of Economic Freedom[6] released by the US Heritage Foundation, India ranks as low as 127th (Thailand is 43rd, Indonesia 56th, and China 100th), and protectionist elements such as high tariffs and non-tariff barriers still prevail in the country. These factors combined have delayed India in being incorporated into the manufacturing supply chain in East Asia, most foreign companies making forays into India are doing so with their eye mainly on the domestic market.

While some may believe that because of its sheer size, the domestic market alone is sufficient, at present, few local Indian manufacturing companies have international competitiveness in terms of technology and efficiency. As a result, it is difficult for foreign companies to make use of India as a processing base for exports. The protectionism led by low competitiveness has after all prevented full-fledged promotion of the Make in India policy.

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[4] Most of the inward investments have been M&As, not greenfield investments. For this reason, some point out that the effect of creating new jobs has been weak, and makes it difficult to achieve the goal of creating 100 million new jobs in five years. (Based on local interviews conducted in December 2019)

[5] https://info.worldbank.org/governance/wgi/

[6] https://www.heritage.org/index/ranking

(4) Political situation — giving priority to election ploy

In the Indian Parliament, although the Bharatiya Janata Party (BJP) led by Modi holds the majority in the lower house, but BJP-led National Democratic Alliance (NDA) does not have a majority in the Upper House. Through continuous victory by the ruling coalition in the state legislative elections, which determines the number of seats in the upper house, the Modi administration sought to resolve the twisted parliament (houses being controlled by different parties) and force through reforms. However, a number of the Modi government's policies, such as the proposed revisions to the Land Acquisition Act that was submitted to the parliament at the end of 2014 (which was not ratified in the upper house and expired in August 2015), have been unpopular among the public and led to several legislative defeats for the BJP in state elections. As a result, reforms that could affect the outcome of elections have effectively been shelved. While chief among such deferred reforms are those related to the Land Acquisition Act and labor reforms, which are two of the three major reforms, Make in India policy was also strongly influenced by the political situation, which became a factor that hindered its promotion.

1-4 Make in India policy under the first Modi administration

Although these factors made it difficult for the Modi administration to achieve its initial targets, it does not mean that the administration did nothing to promote the manufacturing industry during its first five years in office. Despite the tough situation, the government devised measures to promote a shift to domestic manufacturing, such as by supporting initiatives at the state level and introducing the phased manufacturing programme (PMP) under which tariffs are levied on specific manufactured products in stages. In particular, the shift to domestic manufacturing of mobile phones spurred by the introduction of the PMP is probably the biggest Make in India-related achievement of the first Modi administration.

(1) State-level initiatives to promote domestic manufacturing

The first Modi administration introduced a policy called "Competitive Federalism" to increase the competitiveness of the nation as a whole by encouraging competition among the states. Maharashtra and other states that are trying to establish manufacturing clusters have introduced their own incentives (Figure 4) and are succeeding in attracting foreign companies.

Figure 4: Examples of state incentives for manufacturing sector companies

State	Tax incentives	Subsidies	Exemption of stamp duty, etc.	Others
Tamil Nadu	● VAT/CST or SGST paid for 10-16 years from the operation start is refunded by the state as investment promotion subsidies or soft loans. An additional 10% will be added to the refund if a company creates more than double jobs stated in the employment plan.	● Subsidies are provided for additional capital of 50% over and above the eligible limit in state industrial parks, and for additional capital of 10-25% over and above the eligible limit outside of state industrial parks. ● Subsidies are provided up to 25% of the capital cost of installing an environment protection infrastructure.	● Exemption of 50-100% of stamp duties on the leasing or sale of land for industrial use	● Exemption of electricity tax on electric power purchased from the state electricity distribution company (Tamil Nadu discom), or electric power generated and consumed in-house
Maharashtra	● Refund of total SGST paid by a factory at the time of initial sales ● Tax exemption of up to 100% on electricity for export-oriented large-scale manufacturing and IT industries		● Exemption of 100% of stamp duties related to land and term loans within the investment period	● Offering of customized packages of incentives for particularly important projects ● Priority land allocation
Gujarat	● Exemption of corporate tax on exports gains for 10 years in an SEZ in the state ● Refund of up to 90% of VAT for up to 10 years	● Incentives for up to 100% of fixed capital investments for up to 10 years		● The Industrial Extension Bureau (iNDEXTb) acts as a single window for all investments
Haryana	● Refund of up to 75% of VAT/SGST for first 7 years, and up to 35% for next 3 years ● Exemption of 50% of tax on external development expenses		● Refund of up to 100% of stamp duties for industrial land	● Job creation subsidies for strengthening the capabilities of the citizens of the state.
Andhra Pradesh	● Refund of 50% of VAT/CST or SGST in the case of large-scale production plants for up to 7 years	● Subsidies of up to 35% for costs of plants or machinery for cleaner production	● Refund of 100% of stamp duties and transfer tax for the purchase/lease of industrial land	● Establishment of a single window portal to enable completion of necessary procedures within 21 business days ● Easiness in securing industrial land (state-owned land offered for 99-year lease).
Telangana	● Refund of 50-75% of VAT/CST or SGST for up to 7 years	● Subsidies of 25% for specific cleaner production	● Refund of 100% of stamp duties and transfer tax on the purchase of industrial land	● Refund of up to 25% of the cost for acquiring land in a state industrial park ● Refund of 50% of expenses for personnel training and human resource development

Source: Compiled by MGSSI based on the industrial policies of each Indian state

(2) Introduction of the phased manufacturing programme

In addition, the introduction of the PMP (Figure 5) has been effective in advancing a major transition from imports of finished products to domestic manufacturing in some industries. The mobile phone industry, in particular, has succeeded in drawing investments, primarily from Chinese mobile phone manufacturers, and on top of the increased handling of assembly operations domestically, the production of some related electronic parts/devices has also shifted more to indigenous manufacturing. Out of the mobile phones supplied to the domestic market in fiscal 2014-15, 58 million units were manufactured in India (aggregate value of approximately INR 189 billion/1 USD= approximately 75rupee), while imports accounted for 216 million units (approximately INR 585.5 billion), which was roughly 3.7 times the volume of domestically manufactured units. In fiscal 2018-19, by comparison, domestic production reached 290 million units (approximately INR 1.812 trillion) and imports were limited to only about 20 million high-performance products (INR 110 billion), meaning that more than 95% of demand was met by domestic manufacturing.[7] In view of this accomplishment, it can be said that the most successful industry among the 25 designated as priority areas in 2014 has been the industry for electronic equipment and systems, which includes mobile phones (Figure 6). It is also worth noting that this shift to domestic mobile phone production was driven by Xiaomi and other Chinese companies, implying that Chinese companies led the Make in India policy under the first Modi administration (Figure 7).

Figure 5: Tax rates for mobile phone parts under PMP

Fiscal year	Item	Import tax rate
2016	(1) Wired headset (2) Battery pack (3) Charger, adapter	15%
2017	(4) Die cut parts (5) Microphone and receiver (6) Related parts, such as SIM case (7) Key pad (8) USB cable	15%
2018	(9) Camera module (10) Printed circuit board assembly (PCBA) (11) Connector	10%
2019	(12) Display (13) Vibrator motor, voice transmitter (14) Touch panel, cover glass assembly	Not implemented

Source: Compiled by MGSSI based on materials from India's Ministry of Electronics & Information Technology (MeitY)

Figure 6: Results and progress of major manufacturing initiatives under the first Modi administration

Industry	Details	Remarks	Progress
Electronics	● Under the Make in India policy, a phased manufacturing programme (PMP) was introduced in the electronics industry in April 2017. Mobile phone production in India grew from 58 million units (value of approximately INR 189 billion) in FY 2014-15, to 290 million units (approximately INR 1.812 trillion) in FY 2018-19. Especially, Chinese companies, such as BBK Electronics and Xiaomi, strengthened their market presence noticeably.	This may be the only successful example of the Make in India policy. Although it will take some time to produce parts in India, plans are moving forward steadily. The program has produced 670,000 new direct employment.	◎
Electronic systems			◎
Automobiles	● Isuzu Motors invested INR 15 billion to establish a new plant in Sri City in Andhra Pradesh, and newly employed 1,500 people. Maruti Suzuki also built and began operating a new plant, producing 250,000 vehicles in 2017. The company started operating a second plant in 2019 (250,000 units/year), and is scheduled to start up a third plant in 2020.	India has become the world's fifth largest automobile manufacturing country and exported some portion of production. Many parts manufacturers have already set up operations in India. Created 270,000 new jobs in five years.	○
Automotive parts			○
Food processing	● Of the 42 mega food parks planned by the government, 27 are scheduled to become operational in FY 2019-2020. ● Of the 292 projects approved under the integrated cold chain scheme, 154 have already begun commercial operations, and the remaining 138 projects have reached the stage where operations can be expected to commence soon.	In addition to the government's regulatory reforms, mega food parks have begun to operate with some success.	○
Space	● India is one of the few countries with the capability to manufacture both rockets and satellites on its own. ● The Indian Space Research Organisation (ISRO) specializes in low-cost space development projects. In 2017, the ISRO launched 104 satellites into space in just 18 minutes.	An area where India has had strength from early on. Plans were implemented smoothly during the period of the first administration.	○
Defence	● Began domestic production of the AK -203 automatic rifle. Although there are many joint venture projects with the Russian government or Russian companies for which production in India has been agreed, it will take time to implement.	Although production under license from Russia is proceeding, progress is slow.	△
Renewable energy	● Plans call for solar power to account for 100 GW out of 175 GW of power that has been installed, by 2022. As of the end of October 2019, solar power accounted for 31.7 GW and wind power for 37 GW. ● About 80% of solar modules have been imported. To promote domestic production, tariffs were eliminated on manufacturing equipment and import safeguards on solar cells were introduced.	Domestic production of modules has been equivalent to around 1 GW per year, but is gradually increasing.	△
Railways	● Plans underway include converting all railway lines to broad gauge, electrifying all lines, constructing freight-only corridors (EDFC/WDFC), modernizing railway station buildings, and installing Wi-Fi at all stations.	Although the implementation of plans has been delayed, India has realized the domestic production of railway cars by Alstom.	△

Note: Assessment of progress is determined by the author.
Source: Compiled by MGSSI based on information from the Make in India website, reports by the India Cellular and Electronics Association (ICEA) and the Indian Ministry of Defence, and other materials

[7] The mobile phone segment created 670,000 new direct employment jobs.

Figure 7: Examples of Chinese companies advancing into India

Industry	Company	Business details
Automobile & automotive battery	SAIC Motor	MG Motor India, a subsidiary of SAIC, has acquired a factory formerly owned by General Motors. It began pre-sales of the MG 'Hector' SUV in July 2019, and is scheduled to begin selling an EV model SUV, the MG 'ZS EV', in January 2020. The automaker is specialized in EVs, increasing its competitiveness.
	Great Wall Motors	The company established a local subsidiary, Haval Motor India, in Gurgaon in the northern state of Haryana, to commence production in India. It will invest approximately INR 70 billion to establish a business foundation, and will specialize in manufacturing EVs.
	Tsingshan Holding Group	The company will invest approximately INR 210 billion in the Dholera Special Investment Region (SIR) in Ahmedabad, Gujarat, to build a battery manufacturing plant for EVs.
	BYD	The company has partnered with local company Olectra to produce 2,000 electric buses per year. Other than plans to boost annual production to 5,000 buses, the company intends to strengthen its battery assembly line. It also sells MPVs for EVs, commercial logistics minivans, and electric forklifts. The company will invest INR 28 billion in production of mobile phone parts in Tamil Nadu.
Mobile phone	BBK Electronics	The company manufactures and sells products in India under the OPPO, Vivo, and Realme brands. In FY 2018-19, the three brands collectively captured a 31.7% share of the Indian mobile phone market. The company has established a manufacturing base for electronic components in Noida, Uttar Pradesh.
	Xiaomi	Besides having its own assembly plant, the company outsources production to Taiwanese company Hon Hai Precision Industry, and sells India-manufactured mobile phones.
R&D	Huawei	The company has invested USD 170 million in a new R&D laboratory in Bengaluru. In addition, manufacturing of the company's Honor 7X smartphone will begin at a plant of Flex (Singapore) in Sriperumbudur near Chennai.
TV	OnePlus	Smartphone maker OnePlus, a subsidiary of OPPO, has announced that it will start manufacturing OnePlus TVs in India in 2020.
Home electronics, etc.	Haier	In November 2017, the company expanded its Pune plant in Maharashtra to establish a system to accommodate annual production of 2 million refrigerators, 1 million air conditioners, 1 million washing machines, and 1 million LED TVs. Another factory is being built in Noida, Uttar Pradesh.
	Carrier Midea India	The joint venture between Carrier, a major US industrial air conditioner maker, and the Chinese company Midea, the world's largest air conditioner maker, manufactures refrigerators, washing machines, and home appliances. The JV has been producing household air conditioners at a factory in Haryana since 2016.
Pharmaceutical	Fosun Pharma	In October 2017, the company acquired a 74% equity stake in Indian company Gland Pharma, headquartered in Hyderabad, for USD 1.09 billion. It also has a manufacturing facility for generic injectables.

Source: Compiled by MGSSI based on information on the websites of the Chinese Embassy in India, the National Investment Promotion and Facilitation Agency of India (investindia.gov.in), and others

Furthermore, inward foreign direct investment has increased significantly (from USD 24.2 billion in FY2013-14, to USD 44.4 billion in FY2018-19), and investment in the manufacturing sector accounted for 25% on average over the five years, the largest by industry.

2. NEW POLICIES UNDER SECOND MODI ADMINISTRATION

The landslide victory by the Modi-led BJP in the lower house elections held in April-May 2019 kicked off the second administration under Prime Minister Modi, which will last until 2024, and heightened expectations of further reforms. Although the above-mentioned structural factors are not expected to be resolved immediately, the administration has initiated efforts to provide stronger impetus for the Make in India policy.

2-1 Further deregulation for foreign investment

Facing the urgent need to address the recent economic slowdown in India, the Modi administration has launched economic stimulus measures in a row.[8] Among them, policies related to Make in India include the announcement of the relaxation of foreign investment regulations in several areas.[9] For the manufacturing sector, where 100% foreign ownership is allowed under the Automatic Route,[10] it has been made clear that 100% foreign investment for contract manufacturing is also newly permitted. Procurement requirements for

[8] For example, the economic stimulus package announced on August 23, 2019 included: (1) the withdrawal of tax increase on capital gains for foreign investors, (2) a public fund infusion of INR 700 billion into public sector banks to support bad debt disposal, (3) a postponement of the vehicle registration fees' raise until June 2020, (4) measures to encourage banks to directly link lending rates, such as for automobiles and mortgages, with policy interest rates, (5) approval for replacement of aging government-owned vehicles, and (6) an increase in the vehicle depreciation rate to 30%, which is double the current rate, for purchases up through the end of FY2019-20.

[9] Reference material: https://www.jetro.go.jp/biznews/2019/10/60e08811cbd24eff.html

[10] A system under which approval for investment is automatically granted, only by submitting a notification to the Reserve Bank of India afterwards.

single-brand retailers have also been relaxed.[11] This is expected to make it easier to sell the products that have been manufactured in India in not only the domestic market but also overseas.

2-2 Corporate tax cuts and expected labor reforms

The corporate tax cut announced in September 2019 (lowering the effective tax rate from 35% to 25.17%) can improve the business environment for manufacturing companies. Deserving note in particular is that manufacturing-related companies established after October 2019 will have their corporate tax rate reduced to 15% and will be exempt from the minimum alternate tax (MAT),[12] subject to the start of production by 2023. This policy underscores the Indian government's strong resolve to promote the establishment of new manufacturing companies. Along with this, expenditures such as for pursuing research and development and science and technology development, became recognized as part of CSR-related activities. As companies in India are obliged to incur CSR activity-related expenditure,[13] now that they can earmark such expenditures for research and development, that should help propel R&D investment.

Moreover, work is underway to consolidate the 44 labor-related laws into four laws. Although details have not been made clear, following the expansion of the "fixed-term employment workman" system[14] to all industries under the first Modi government, the implementation of other reforms would be expected to benefit the business activities of foreign-affiliated manufacturers.

2-3 Formulation of new industrial policy

Currently, the Department for Promotion of Industry and Internal Trade (DPIIT), of the Ministry of Commerce and Industry, is formulating a new industrial policy for increasing the manufacturing industry's added value (GVA basis) from below USD 400 billion at present, to USD 1 trillion by 2025.[15] A draft of the new policy has been published already. The draft focuses on the following three areas: (1) sectors having a strong impact on job creation (labor-intensive industries), (2) emerging industries (advanced industries, Figure 8), and (3) micro,

Figure 8: Emerging sectors listed in the draft of the New Industrial Policy

Biotechnology, genomics
Electric vehicles and batteries
Unmanned aerial vehicles (UAV)
Active pharmaceutical ingredients (API)
Medical equipment
Robots and automatic equipment
Advanced materials
Chemical raw materials, chemical substances

Source: Department for Promotion of Industry and Internal Trade, Ministry of Commerce and Industry, Government of India

[11] In this segment, up to 100% foreign ownership is allowed through the automatic approval route, but if the foreign investment stake is more than 51%, the retailer is required to source 30% of procurement in India. For the first five years from the operation launch, this requirement can be satisfied with the average for the amount of procurement during the period (including procurement for exports as well as for domestic sales), but thereafter, it must be achieved on an annual basis. Also, e-commerce sales were not allowed without having a physical store. Under the reforms, the cutoff date has been eliminated for including procurement for exports in the procurement amount, and e-commerce sales have also been allowed, on the condition that a physical store is opened within two years from online sales commencement

[12] If there is no taxable income or the tax amount calculated based on taxable income is less than 18.5% of net income in the income statement prepared in accordance with the Companies Act, payment of a minimum alternate tax (MAT), calculated as 18.5% of net income, is required.

[13] The requirement applies to companies that meet at least one of the following three criteria: (1) net assets of INR 5 billion or more, (2) total sales of INR 10 billion or more, or (3) net income of INR 50 million or more. Companies subject to this requirement have been mandated since FY2015-16 to spend more than 2% of the average of net income for the past three fiscal years on CSR activities.

[14] In India, a blue-collar worker is defined as a "workman." Revisions made in 2018 to the system has made it possible for all industries to hire workmen as long as the period of employment is stated in the contract, without restrictions on dismissal. In the past, this fixed-term employement rule had been limited to the apparel industry.

[15] In addition, the government has set a goal of increasing India's GDP to USD 5 trillion by 2025 (from USD 2.7 trillion in FY2019-20).

small and medium enterprises (MSMEs). Industrial clusters will be set up primarily in the coastal economic zones (CEZs),[16] which were proposed during the first Modi administration, where labor regulations will be relaxed and measures will be taken to expedite procedures. The draft also mentions the need for tax exemptions and incentives for companies making large investments.

Furthermore, it is worth pointing out that the draft statement says the government will identify which components and systems should be integrated into the global value chain (GVC) and work with the industry to discuss what kind of support is needed. The statement is nothing short of a recognition by India that it needs to play a certain role in the manufacturing GVC. Going forward, the government is expected to specify the components and systems that need stepped-up efforts for expanding exports.

Fostering emerging industries is not easy. Nevertheless, in India, an ecosystem, in which new startups with innovative technologies emerge one after another, has taken shape, centered on Bengaluru (formerly Bangalore), and many entrepreneurs and VCs from within India as well as from abroad are being drawn in. Under the first Modi administration, funding and other support measures for startups were introduced under a policy called Startup India. The second Modi administration is expected to go one step further by collaborating with those startups, to enhance the competitiveness of the manufacturing industry and improve production efficiency.

2-4 The implementation phase kicked off for manufacturing promotion measures

The execution of the new industrial policy, to be announced within 2020, will likely become an important undertaking for the second Modi administration. At the nucleus of the new policy is the manufacturing promotion policy, and the implementation of those initiatives has already begun.

First, with respect to the electronics industry including the mobile phone segment, where a major transition to domestic manufacturing was achieved under the first Modi administration, the National Policy on Electronics 2019 (NPE 2019)[17] was announced in February 2019 as a strategy for further growth. The policy aims to promote the domestic development of core electronic devices, including IC chips, enhance the international competitiveness of the Indian electronics industry, and transform the country into a global manufacturing hub for electronic systems and electronics. The phased manufacturing programme (PMP) mentioned above has been successful and will continue to be promoted as an effective policy for technology transfer and for increasing domestic production of parts. Companies that had been primarily engaged in product assembling with imported parts in India, such as majors from China, Taiwan (including Hon Hai Precision Industry, a manufacturer of Apple products), and South Korea, are now preparing to manufacture various components in India.

Also, while the first Modi administration's ambitious plan to have EVs account for 100% of new car sales by 2030 has been downwardly revised to a more modest 40%, in February 2019, the administration announced a more specific implementation policy for faster adoption and manufacturing of EVs in India, called FAME India Scheme Phase-II[18] (Figure 9). In order to achieve the revised target, the government has hammered out measures to support the shift to domestic production of EV batteries, establish charging stations (in January 2020, the government decided to provide subsidies for the maintenance of 2,636 charging stations in 62 cities in 24 states), and provide subsidies for car buyers. The government will also apply the PMP to EVs and seek to manufacture related parts in India. The tariff rates for EV batteries, chargers, motors, and power control devices will be gradually raised from April 2021. Already, in addition to local companies, Japanese, Chinese,

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[16] The Coastal Economic Zone (CEZ) initiative represents the core of the Sagarmala logistics enhancement project being promoted by the Modi administration. CEZs are special economic zones surrounding the ports along India's coastal regions and are intended to attract and establish industrial clusters that can yield synergies with the region. The zones are expected to serve as export bases.

[17] https://meity.gov.in/writereaddata/files/Notification_NPE2019_dated25.02.2019.pdf

[18] https://dhi.nic.in/writereaddata/UploadFile/publicationNotificationFAME%20II%208March2019.pdf

and other foreign companies have begun making capital investments in preparation for manufacturing EVs and batteries in India.

Figure 9: Examples of FAME scheme subsidies for promoting EV manufacturing and sales

FY 2019-20 Budget	Vehicle type	No. of units eligible	Installed battery capacity (estimate)	Subsidy per 1 kwh	Maximum per vehicle
Appropriation of INR 100 billion in total over the three years from April 2019	Two wheeler (electric)	1 million	2 kwh	INR 10,000	INR 20,000
	Three wheeler (electric)	500,000	5 kwh	INR 10,000	INR 50,000
	Four wheeler (electric)	35,000	15 kwh	INR 10,000	INR 150,000
	Plug-in hybrid electric vehicle (PHEV)	20,000	1.5 kwh	INR 10,000	INR 13,000
	Electric bus	7,090	250 kwh	INR 20,000	INR 5 million

Source: Compiled by MGSSI based on materials from the Ministry of Heavy Industries and Public Enterprises, Government of India

3. FUTURE PROSPECTS

The first Modi administration has implemented a series of reforms to build the prerequisite infrastructure needed for promoting Make in India. Based on this foundation, the second Modi administration is making progress toward policy implementation.

Meanwhile, with regard to the revision of the Land Acquisition Act, which was shelved under the first Modi administration, the level of interest in this issue remains extremely high among the people, especially farmers. If the laws are revised in a way that would benefit businesses, it is expected that the Modi administration will lose the allegiance of increasingly more voters. As such, it is expected that the second Modi administration will also keep the issue being shelved. This means it will remain difficult to quickly acquire land for large-scale infrastructure and factory construction, and that will be a negative factor for promoting the Make in India policy. Going forward, however, it is thought that promotion measures based on the new industrial policy will be launched in the manufacturing industries, other than for electronics and EVs as well, and those will be an important pillar of efforts to promote manufacturing as a whole. On top of that, one of the objectives of the new industrial policy is to attract labor-intensive manufacturing industries. To this end, the development of human resources to support the manufacturing industry is indispensable, and as such, it is expected that stronger efforts will be directed toward the Skill India policy that focuses on developing human resources in the manufacturing industry. Labor reform is also expected to progress.

Even though India is calling on foreign companies to invest in the country, most of its related policies have imposed the same conditions on foreign companies as on domestic companies. This is a difference from China and Southeast Asian countries, where special exemptions on corporate tax and various other incentives for foreign companies have been introduced. Under these circumstances, and as described in this report, the Modi style promotion of the manufacturing industry is taking shape little by little. Will it be possible for India's manufacturing industry to shed the Galápagos syndrome effect, under which it has kept its focus on the local market, and become an industry that are competitive enough to export products globally? There are high expectations for the second Modi administration to make this happen.