



## Ikea store is a success story for Modi's 'Make in India'

The programme, however, still has a long way to go before it can achieve the desired results, economists and manufacturers say

Furniture giant Ikea is set to open its first store and restaurant in India after years of trying to set up base. AFP /NOAH SEELAM

The flat-pack global furniture giant Ikea is all set to open doors to its first store in the Indian city of Hyderabad on Thursday. It has not been an easy journey for the Swedish manufacturing and retailing major, since it first announced plans to launch in India almost six years ago. Among the challenges Ikea faced was the Indian government's requirement that the company source 30 per cent of its products from India within five years of opening the store – in an effort to support the country's manufacturing sector. "In the long term, the goal is to maximise sourcing from India," says Peter Betzel, the chief executive of Ikea India. "Today we are sourcing about 20 per cent of products from local manufacturers." This is a good omen for the Indian Prime Minister Narendra Modi's "Make in India" initiative. Announced in 2014, the plan aims to transform the country into a global manufacturing hub by encouraging Indian and foreign companies to manufacture in the country, boosting growth and creating millions of jobs. While Ikea is well on its way to meet the local production targets, the Make in India programme still has a long way to go before it can achieve the desired results, economists and manufacturers say. "It's definitely one of the very well-intentioned programmes that was launched because India was losing its competitiveness in manufacturing," says Suman Chowdhury, the president of ratings, at Acuite Ratings and Research based in Mumbai. "Make in India is there precisely to improve the competitiveness and encourage the growth of manufacturing in a big way. I think from that perspective the benefits are still to be seen." Despite the much publicised, catchy Make in India slogan, manufacturing has declined to 15 per cent of the country's gross domestic product after peaking at 18.6 per cent in 1995, according to data from the World Bank. The Indian government plans to boost the manufacturing sector to 25 per cent of the economy by 2020, and is banking on Make in India to play its part in achieving this goal. A manufacturing sector survey by the Indian central bank, Reserve Bank of India, reveals that business sentiment in the sector has deteriorated. The 1,207 respondents surveyed were less optimistic about demand conditions in April-to-June quarter, compared to the previous quarter. The study released last week was based on

manufacturers' assessment of production, capacity utilisation, order books and exports. India, Asia's third biggest economy, has lagged behind China, the world's second largest economic power house, when it comes to manufacturing. China has bigger factories and superior trade infrastructure such as large ports that are essential for a global manufacturing hub. "There's just too much difference in the economies of scale between China and India," says Vijay Mansukhani, the managing director of Mirc Electronics in Mumbai, which manufactures electronic consumers goods products, including televisions and washing machines under its Onida brand in India. "Make in India has been a good thing but now India needs to export. That's not working because of infrastructure. India doesn't have the shipping or the air capacity to handle exports," he says. The government last year introduced higher customs duties on imported televisions to encourage domestic manufacturing, which was a positive move for the sector, but there is much more to be done, says Mr Chowdhury. He points out that although India has not seen a surge in manufacturing yet, there are significant steps that have been taken by the government that should ultimately be "conducive" to the manufacturing environment. This includes easing foreign direct investment regulations for manufacturing in defence and retail sectors, and the introduction of the goods and services tax last year. This replaced several taxes that were imposed across the country's different states with a uniform tax regime. Although, it has its teething problems, GST streamlines taxes, which is beneficial for manufacturers. The government's focus on improving infrastructure, including roads and ports is another area which should yield positive results in the medium to long term, he adds. India needs investment of \$1.5 trillion (Dh5.51tn) in infrastructure over the next 10 years, according to the country's finance ministry. The government for this financial year raised its budget for the sector to almost 6tn trillion rupees. But some manufacturers complain that there is not enough concrete, direct action to incentivize manufacturing under Make in India, such as subsidies.

Another major hurdle is to secure land for a project in the country. "Land is always a challenge," says Balbirsingh Khalsa, the national director, industrial, at Knight Frank India. "Each state has its own industrial development path, and it becomes very difficult for any foreign company to come into India and know where to go," But there is a lot of interest in the sector. "Many manufacturers want to take advantage of the large population in India and want to manufacture in India because the labour is cheap and [it's easier to] export to the rest of Asia," he says. There are some success stories, which indicate the potential. Samsung last month launched its largest mobile phone factory in the world in Noida, not far from India's bustling capital, New Delhi. Samsung India chief executive, HC Hong, was all praises about

Make in India at the inauguration ceremony, attended by Mr Modi and South Korean president, Moon Jae-in. Mr Hong described the sprawling facility as “a shining example of the success of the government’s Make in India programme”. The Samsung factory has created 2,000 jobs and involves an investment of 49bn Indian rupees, which could double Samsung’s capacity for making phones in India to 120 million units per year by 2020. About 30 per cent of the devices made at the facility are expected to be exported. “We make in India, make for India, and now, we will make for the world,” he said, who spoke of Samsung’s “dream of making India a global export hub for mobile phones”. The car manufacturing sector in India is another area that seems to have accelerated following the initiative. The domestic demand is the driving force for car makers in India, given its aspirational population of more than 1.3 billion and rising incomes in the country. But car companies Ford, Nissan and Volkswagen, which all have manufacturing units in India, are exporting more and more cars out of the country, taking advantage of cheaper labour, which means India has a serious potential of becoming an export hub for small cars.

“The age old problems of the manufacturing sector in India – lack of infrastructure, high interest rates, high logistics costs and lack of skilled labour – are so deep-rooted that it would take some time to remove,” says VP Singh, the economics professor at Great Lakes Institute of Management in Gurgaon. “It would not be wise to think that such problems can be solved within three to four years.” There have been a series of announcements for manufacturing plans in the defence sector, for example, but these have been slow to actually get off the ground. Mr Singh, nevertheless believes, Mr Modi’s Make in India scheme has been “successful” so far, given the circumstances. India is enjoying high levels of economic growth, with GDP expansion coming in at 7.7 per cent in the first quarter of this year. The country has jumped 30 places to the 100th spot in the World Bank’s ease of doing business rankings – in part due to Make in India, he says. If the country can continue to work towards removing obstacles, the benefits could be enormous. “This should lead to increasing the share of manufacturing in our country’s GDP and of course increased employment for our people,” says Mr Singh. “Given the trade war indications between China and US, India can benefit only if it increases its production capacity so that US can see India as a source that can fill the gap left by China.” However, despite all the potential, the question most people ask is could the Make in India campaign still be a success and deliver the desired results eventually by 2020? “In terms of expectations of a grand revival of Indian manufacturing, I think that will take time,” says Mr Chowdhury. “That’s not going to happen easily.”

The story can be read online, [here](#).