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Make in India 2.0: Diagnosing the execution gap

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Abstract
India had an ambitious upswing to its states based on its Manufacturing prowess under the name of the make in India (MII) initiative launched in 2014 to change India into a manufacturing giant. Although it caused some initial enthusiasm and policy changes, it has not achieved goals in producing GDP share and creating employment in manufacturing as was anticipated. In acknowledging this, the government transformed the plan into the 2.0 version of the mission, insisting on industries and launching the scheme of Production Linked Incentive (PLI). Nevertheless, it faces a major threat by execution gap. This paper identifies the root causes of this disconnect in MII 2.0 and looks at issues such as infrastructure pinch points, regulatory complexity, skill mismatches, funding challenges and international competition. This position is that filling this gap is more of a holistic approach, that goes beyond financial incentive, as it focuses more on entrenched structural reform, better interagency coordination, the build-up of state capacity and the creation of what many are referring to as a genuinely competitive ecosystem. It is imperative that these issues of execution be solved in order to turn India into a strong manufacturing country with a strong level of sustainable economic growth.

Keywords: Make in india, manufacturing policy, industrial policy, execution gap, India economic development, PLI schemes, infrastructure, ease of doing business, skill development, global value chains

Introduction

It is hard to imagine a country that is dominated by a huge young labour force and that has the largest domestic market and a government, which will do anything to generate employment and stimulate its economy through the production of goods. That was how the idea of the Make in India (MII) campaign by India was introduced in 2014 (Jasmine, 2018) [1]. It was also clear of the ambition to transform India into one of the best global factories as was the case with China years ago. Describing itself, it is projected to draw international businesses, assist Indian Industries to expand, generate millions of new employments, and turnaround the production sector to a considerably larger economic component (Department for Promotion of Industry and Internal Trade [DPIIT], 2021).

The first phase caused buzz. New policies were declared and the rules relating to foreign investments were eased and large promises were given. The creation of jobs in the factories was not that bulky as one would have wished. Most of the large investment announcements did not materialize in factories on the ground (World Bank, 2020; Singh, 2022) [22, 23, 25, 26]. It soon dawned upon me that a good plan was not sufficient, what mattered was the effective implementation of the plan. The difference between the execution gap and planning is called the execution gap (Sahoo, 2023) [21].

On this lesson, the government came up with Make in India 2.0. This was not entirely a new program it was an upgrade which was more focused and smarter. Rather than attempting to increase everything, it found that industries such as the electronics, pharmaceuticals, textiles, automobile, and renewable energy were likely to grow (NITI Aayog, 2021) [13]. The MII 2.0 policy will be the Production Linked Incentive (PLI) schemes. The method that PLI employs to provide companies with cash rewards is directly connected to their performance and output because it rewards them depending on their supply and sales in India (Press Information Bureau [PIB], 2023) [17, 18]. Although MII 2.0 and PLI schemes have the potential, at least in some industries, such as assembly of mobile phones, the traditional issue of the implementation gap has not disappeared (Economic Survey, 2023) [6]. The aim of this paper is to get down and dirty as to why there exists this same gap in MII 2.0. Why would the best laid plans on paper be tricky when it comes to actual execution? Addressing this gap is the key to making India a manufacturing powerhouse that enjoys the economic stimulus of employment, export, and economic power.

Methodology

In this paper, the qualitative approach will be used to address the implementation gap of the Make in India 2.0 project in India. The method focuses on the concept of being aware of the structural, regulatory and contextual factors influencing policy implementation. Instead of counting the effects or outcomes, the attention is given to the diagnosis of the causes and description of the experiences of stakeholders and institutional processes of manufacturing policy.

Data Collection

The source of the paper is the analysis of documentary material on government reports, policy documents and credible research materials, such as documents issued by the Department for Promotion of Industry and Internal Trade (DPIIT), NITI Aayog, the Ministry of Finance, and the World Bank. Coding is used to identify theme recurrence of bottlenecks in implementation, regulatory inefficiencies, skills mismatch, financial constraints and sectoral coordination based on peer-reviewed journal articles, sectoral progress reports, and official statistics. The triangulation of the secondary data is done by comparing various sources.

Data Analysis

The systematic review of collected documents and research papers is performed by means of qualitative content analysis. The insights on the nature of infrastructure constraints, regulatory issues, shortage of skills, financial concerns, and global competitiveness are extracted using organizational and thematic coding. It focuses on the capture of patterns, contrasts as well as the best practices as identified by the policy experts, practitioners and international agencies. The analysis is informed by the principles of grounded theory that proceeded towards descriptive observations to the analytical categories that describe the persistence of.pdf.

Findings

The Evolution: From MII 1.0 to MII 2.0

- **Vision:** All the ills that plagued the manufacturing sector of India at the time were poised to change since the key goal of Make in India (MII) program was to increase the contribution of manufacturing industry to the GDP in a target of 25% by the year 2025 as well as to generate 100 million jobs by 2022 and make India a global manufacturing hub. In fact, both the DPIIT and the NITI Aayog estimate the current size of the podcast industry as 379 crores and 450 crores respectively in 2021 (DPIIT, 2014; NITI Aayog, 2021) [13].

- **Significant Policies**: The MII 1.0 targeted 25 industries and liberalised FDI (particularly in defence and railways), increased the ease of doing business ranking of India, built industrial corridors (like the Delhi-Mumbai corridor), encouraged startups and entrepreneurship (as part of Startup India) and simplified regulatory systems (World Bank, 2020; DPIIT, 2021) [25, 26].

- **Achievements:** The program saw India gain a significant improvement in the World Bank ease of doing business index in which the country moved up 24 positions in just five years since the initiative was started in 2014 when it was ranked 142 in the 2019 ranking before the index was discontinued. The foreign direct Investment was at its peak and there was a massive increase in the industries like the assembly of mobile phones. Also, the image of India as a promising destination to invest in became more favourable (World Bank, 2020; Press Information Bureau [PIB], 2020) [16, 25, 26].

- **Weaknesses:** Although these were achieved, the proportion of manufacturing in GDP was not improving as it hovered at 1517%. The employment in formal manufacturing was not able to create jobs as expected. Most of the declared projects took much longer or simply did not happen. The general strategy of MII 1.0 watered down resources distribution and innovation and infrastructure, as well as bureaucratic issues, remained. The critics observed that the strategy focused more on investment inflows than serious structural changes in the manufacturing ecosystem (Sahoo, 2023; Singh, 2022) [21, 22, 23].0 (2014 Onwards):

MII 2.0 (Circa 2020 Onwards): Focused and Incentive-Driven

- **Rationale**: Having learned about the flaws of MII 1.0, the government refined its approach to a more specific and performance-based one in the case of MII 2.0. The need to advance India as a place in international supply chains was enhanced by the COVID-19 pandemic and the new approach of international companies to use the so-called China+1 strategy (NITI Aayog, 2021; Economic Survey, 2023) [6, 13].

- **Key Distribution Shift:** The approach changed the mode of a blanket push to that of sectorpacked. The highest-potential industries were outlined as per export competitiveness and strategic in MII 2.0 (DPIIT, 2021).

- **Flagship Tool**: Production Linked Incentive (PLI) **Schemes:** The flagship of the MII 2.0 is the PLI Schemes wherein an incentive of 4-6 percent on additions sales over 5-7 years will be provided to eligible names to manufacture in India. This aims at scaling, improving the competitiveness, and encouraging integration into the global value chains (PIB, 2023; Ministry of Finance, 2023) [8, 9, 10].

Selected Sectors: Fourteen are targeted under the PLI:
Smartphones, IT hardware, components
Medications (APIs, KSMs, drug intermediates)
Medical devices
Telecom and network apparatus
White goods (LEDs, air conditioners)
Processing of food
Textiles (technical textiles and MMF based apparel)
Cars and auto parts (with emphasis on electric and high-tech energizer technology) Drones

Special steel

The DPIIT is to announce the total number of decisions made through the issue of notifications (DPIIT, 2021). The PIB will be used to notify the number of decisions made (PIB, 2023).

Broader Ecosystem Approach: PLI, in parallel with MII 2.0, is consolidated by structural reforms such as National Infrastructure Pipeline (NIP), National Logistics Policy, PM Gati Shakti (a digital platform to coordinate infrastructure planning), updates to the Skill India

Mission and unceasing regulatory simplification to boost ease of doing business (NITI Aayog, 2021; Economic Survey, 2023) [6, 13].

The Execution Gap: Symptoms and Diagnosis

Despite the more focused approach of MII 2.0, evidence shows that the execution gap remains a significant challenge. Here is a diagnosis of key problems:

1. **Infrastructure Bottlenecks: The Physical Stone Walls**

- **Issue:** The manufacturing industry needs reliable power source, well connected roads, ports, advanced logistics, and effective rail networks. The quality of infrastructure and accessibility to the last-mile delivery is also poor, even with the implementation of the National Infrastructure Pipeline (NIP) Power shortages, backlogs at ports, inadequate warehousing, and so on, negate the competitiveness of manufacturing, based on the Production Linked Incentive (PLI) scheme (NITI Aayog, 2021; World Bank, 2020) [13, 25, 26].

- **Effect on Execution:** The estimated figures of logistics cost in India are 1418 percent of GDP which is high as

compared to the logistics cost in developed countries of 8-10 percent (Logistics Performance Index, 2018; World Bank, 2020) [7, 25, 26]. This makes the world less competitive at a global scale. The power reliability is still a problem; therefore, firms have to invest in generators which adds the cost of their production raising it and cancelling out the PLI benefits (DPIIT, 2021).

- **Illustration:** A company specialising in electronics might be provided with 5 percent PLI and in case the logistics inefficiencies add up to 7 percent cost, the net gain becomes zero. Independence of constant power source may delay factory related activities.

2. Complexity and inefficiency in regulation: The Paperwork Maze

- **Issue:** Despite India showing an increase in the Ease of Doing Business rank, the actual business practices have been engulfed by multilayered regulations at the central, state, and local governments. Bureaucratic red tapes, policy uncertainty, and land acquisition procedures are one of the factors that are hampering considerably and MSMEs (World Bank, 2020; Singh, 2022) [22, 23, 25, 26].

- **Effect on Implementation:** A lengthy process of giving approvals and licenses increases the cost of the project, deters investments when needed the most, and redirects the resources toward compliance instead of production. These inefficiencies especially affect the MSMEs (Sahoo, 2023) [21].

- **Example:** Despite PLI being approved, the firms often encounter a 12-18 months delay in obtaining environmental approvals or tax registrations. Sourcing plans are thrown out of gear by sudden changes in GST or customs duties.

3. People Puzzle the Skill Mismatch

The problem: Today manufacturing requires not only technical skills but soft skills as well. India however faces a twin**.**

Challenge: despite her large resource pool of labor force, it is too unskilled, and on the other hand, there is low availability of industry ready professionals who are technically trained. Most ITIs and polytechnics have dated curriculum and fewer connections to industry (MSDE, 2022; NITI Aayog, 2021) [13].

- **Cost on Implementation:** The firms are faced with difficulty in attracting and maintaining skilled labour and there is high cost involved in training of the labour as well as reduced efficiency and quality of labour. There are shortages in skills which also harm productivity growth and constrain upgrading within the sector (Economic Survey, 2023) [6].

- The example is, a PLI based auto component maker may invest in expensive machinery to produce high end products but fail in acquiring CNC operators thus limiting their productions and their defect rates shooting up.

4. Finance supplies and the cost of capital: The Money Crunch

- **Challenge:** Although big firms can access capital markets, MSMEs usually face difficulties in getting cheap funding. Deter investments include high perceived risk by lenders, high-interest rates (up to 1618%), collateral requirements, and cumbersome processes to make investments on scaling, or modernization (RBI, 2022; Ministry of Finance, 2023) [8, 9, 10].

- **Effect on Execution:** The problem of financing reduces the capacity of MSMEs to supply to PLI supported companies, which reverses backward integration and domestic value addition. Neither will PLI-supported production look viable with high borrowing costs cannibalizing margins (PIB, 2023).

- **Example:** A mobile phone PLI having a supplier of small parts, scraps the idea of making an upgrade to his company because of the 18 percent interest rates charged on loans and the anchor company decides to import the product instead

5. Global Change and Competition: The World past India

- The problem is that India is in a tight competition with some countries such as Vietnam, Thailand, and Mexico which, in most cases, have lower production costs, preferable trade agreements, and superior supply chains. In such a case, Vietnam can provide several FTAs, which provide the benefit of tariff-free entry to the EU and ASEAN markets (UNCTAD, 2021; OECD, 2022) [14, 15].

- **Effect on Execution:** Existentially beautiful PLI incentive packages can also not strike a balance with the integrated advantage of improved infrastructure, trade access, and augmented simplicity of regulations in other moods. Long-term investments can also be discouraged by any act of global slowdown or protectionism (Sahoo, 2023) [21].

- **Illustrative example:** Even in the case that India has slightly more favourable incentives, a global electronics player may prefer Vietnam over India because of superior port connectivity and access to FTAs.

6. The Hurdles on the Implementation of PLI Schemes: The Scheme-Specific Hurdles

- **Problem:** Several PLI schemes have suffered implementation problems:
- Complicate application processes in which documentation is extensive.
- Late release of the promised funds received.
- Concentration on assembly (such as completion product integration) instead of true production of component or research and development and the resulting criticism of screwdriver technology.
- Lack of strong control and it was not able to confirm incremental production and actual investment.
- Sector gaps in which the vital value chains are not supported (PIB, 2023; Singh, 2022) [22, 23].

- Effect on Execution: Payment delays and piles of administration put off firms. India also runs the risk of staying as an assembly base and not a deep manufacturing hub as measured by the narrow definition of value addition.

7. Coordination and Capacity Gaps: The Silo Effect

- **Issue:** MII 2.0 cuts across different ministries (Commerce Ministry, Electronics Ministry, Heavy industries etc.) and needs close coordination between the central and state governments. However, specialized work patterns, limited technical knowledge and fragmentation in administration weakens the level of response and efficiency (DPIIT, 2021; NITI Aayog, 2021) [13].

- **Effects on Implementation:** Investors encounter a situation of uncertainty regarding approvals, schedules and roles. The weak collaboration between the agencies slows down the project and decreases the general effect of reforms and PLI stimulus.

Example: A large manufacturing plant may need approvals from pollution control boards, state industry departments, and local municipalities — a lack of synchronization between them results in delays, contradictory requirements, or duplication

Conclusion

M II 2.0 with its sectoral emphasis and the PLI scheme embodies a needed progression of initial scope of MII 1.0. It admits the requirement of specific intervention and performancerelated support. Initial successes especially in assembling electronics is evident and reassuring.

Nevertheless, the still-existing execution gap is the only major threat to its transformative power. This shortcoming is reflected in the form of poor physical infrastructure, elaborate regulatory regime that inhibits efficiency, a workforce of the wrong skills, the inability to find affordable finance (particularly the case of MSMEs), stiff global competition and the inability to deal with the complex schemes such as PLI. These are undermined by the problems of interaction among various components of the government and limitations of the bureaucracy. As India seeks to ensure a successful second version of the Make in India, it will not be enough to have good policies such as the PLI scheme, but it must do something big in major areas. To begin with, there should be some improvement in the infrastructure and this can be done by accelerating the big projects, reducing the transport expenses, having a secure power supply and by increasing the digital connectivity. Second, business regulations should become simpler and more stable with rapid approvals, land accessibility, and speedier solving of legal matters. Third, with industry driven as well as modern, and practical skills training, workforce should be educated at higher levels such as increased apprenticeships. Fourth, small producers (MSMEs) require simpler sources of credit, less-costly financing charges, and fresh sources of money such as venture capital and fintech. Fifth, PLI scheme must become simpler to avail, reward genuine addition of value in India and must be effectively catered with the help of technology stimulated with the changes that are facilitated by the feedback of the sector. Sixth, the interaction between the government departments and the states needs to be increased, best practices need to be exchanged, experts need to be employed, and the data needs to be utilized to monitor the progress and correct the errors within a limited amount of time. Lastly, India needs to increase innovation through tax concessions and subsidies on research and development and by establishing powerful laws that will safeguard new ideas through intellectual laws. Together, these steps can help close the execution gap and make India a true global manufacturing leader.

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