

Make in India: Opportunities Ahead and Associated Challenges

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Abstract

Make in India, since its very appearance on the political and economic front has grasped the attention of policy makers and thinkers all around the world in general and of India in particular. India is an economy characterised by indefinite potential in terms of resources, workforce and market. But at the same time, under exploitation of these factors is an important bottleneck that needs to be overcome. For a successful Make in India campaign, an enabling business environment is required at every step. The business environment includes all the internal and external factors that affect the working and existence of a business enterprise. The proposed study seeks to identify various components in external environment that have the potential of proving to be an opportunity or risk of turning out into a threat for Make in India initiative. For the purpose of this study, PEST (Political, Economic, Socio-Cultural, and Technological) analysis of business environment would be performed. Research design is basically exploratory in nature and will employ inputs from reports and statistics of agencies of good standing.

Keywords: Make in India, Business, Environment, PEST analysis

1. INTRODUCTION

1.1 Make in India

Make in India is a major national program launched by Mr. Narendra Modi led NDA government on 25 September 2014, with an aim to give the Indian economy global recognition to revive an ailing manufacturing sector and transform India into a global manufacturing hub.

It is evident that post 1991 financial crisis, India has become a much liberalised market and has adopted free market principles simultaneously becoming very active in global trade. But still, India ranks 142 among 189 countries on the World Bank's 'Ease of Doing Business' index and this would not make global financiers happy. Narendra Modi led NDA government is set to improve the country's business environment and perception among overseas investors which include a series of activities to improve and accelerate decision making, reduce regulatory compliance, and reduce cost of doing business. With such positive attitude of the government towards Make in India initiative, India should report higher in the rankings next year as various attempts are being made to improve the business environment in the country.

An important step in this direction is complete transformation of the planning model of India. The Planning Commission of India recently renamed as NITI Aayog (National Institution for Transforming India) is an encouraging step towards Make in India campaign. The reform era surely put India in higher growth trajectory earning the status of the fourth largest economy.

1.2 WHY MAKE IN INDIA?

So far, the manufacturing sector has played a modest role in providing formal employment which partially explains India's low growth elasticity of poverty reduction in urban areas. The growth rate of industrial sector in general and, for manufacturing in particular continues to be below par and is critical. Industrial growth also exhibited slowdown in the year 2012-13, at 1 per cent as per Revised Estimates as compared to growth of 7.8 per cent in the year 2011-12. The decline continues in the fiscal 2013-14 and 2014-15. The decline in industrial growth in the may be attributed to the fall of the growth rates in the 'manufacturing' sector at 1.1 per cent, 'construction' which at 1.1 per cent, 'electricity, gas & water supply' at 2.3 per cent and, 'mining and quarrying' at 2.2 per cent. Keeping these statistics in view, there is a dire need to revive the otherwise declining manufacturing sector.

1.3 PEST ANALYSIS

PEST analysis is basically a framework used for scanning and analysing an external macro environment of business by considering factors which include political, economic, socio-cultural, and technological. *PEST analysis* can be used to gain an insight into the environment in which business operates, understand what these factors represent and how they are interdependent. Once these environmental factors are identified and analysed, business organizations are in a better position to plan an effective strategy to meet their objectives and minimize any errors that might cause a performance-expectation gap.

In the proposed study, PEST analysis for business environment for make in campaign is conducted to identify the various aspects that have a bearing on the campaign.

2. RESEARCH METHODOLOGY

2.1 Need and significance of the study

Make in India is a very ambitious programme of NDA led Government and has the potential of reviving the manufacturing sector of the economy in years to come. While the benefits accruing from the project are huge, the conditions facilitating the implementation of the project are not very promising. The paper seeks to identify the pros and cons of the existing business environment that facilitate or inhibit the mission. PEST analysis that seeks to identify Political, Economic, Social and Technological aspects of existing business environment is proposed for the study.

2.2 Objectives of the Study

Based on review of literature the following objectives have been framed:

- To identify various issues in the existing business environment that are relevant to Make in India campaign
- To conduct PEST analysis of existing Business environment by considering issues so identified
- To identify the facilitating and inhibiting aspects of business environment those have a bearing on Make in India Campaign.

2.3 Method of Data Collection

Research design is basically exploratory in nature and will employ inputs from reports and statistics of agencies of good standing.

3. DISCUSSION

According to the economic survey of 2015 *"A political mandate for reform and a benign external environment have created a historic moment of opportunity to propel India onto a double-digit growth trajectory. Decisive shifts in policies controlled by the Centre combined with a persistent, encompassing, and creative incrementalism in other areas could cumulate to Big Bang reforms."* However there are certain bottlenecks in the economy which the Government needs to address towards the realization of this goal. Making India a global manufacturing hub is major aim of "Make in India." This research paper aims to identify some of the key issues that may surface during the implementation of ambitious Make in India initiative.

Through secondary research and data obtained from various authenticated sources like, Economic Survey of India 2015, reports from, McKinsey & Company, CRISIL, World Bank, Ernst and Young and various news articles from some of the leading newspapers, this paper has been able to identify the following major issues in the path of making India a global manufacturing hub. The same have been presented under the contexts: Political, Economic, Social and Technological.

3.1 POLITICAL: Political factors refer to the degree of government intervention in the economy. The legal and regulatory factors such as labour legislations, taxation policies, consumer protection laws, environment laws, tariffs and trades etc are included in under this head. Besides, foreign policy of a country has an important role to play in determining the trade regulations, which can result either in trade restrictions or trade incentives. Being largest democracies in the world, India runs on a federal form of government making way for policies of both centre and the state. The political environment is greatly influenced by factors such as government's policies, politician's interests, and the ideologies of several political parties. As a result, the business environment in India is affected by multivariate

political factors. The taxation system is well-developed wherein some taxes like income tax, services tax and sales tax are imposed by the Union Government and other taxes, such as octroi and utilities, are taken care of by local bodies. Privatization is also encouraged and the government encourages free business through a variety of programs. Keeping in view the present political scenario, the following facilitators and inhibitors of Make in Campaign have been identified.

Facilitators:

- **Government policy** of the centre: Permission of 100% Foreign Direct Investment (FDI) under the automatic route in construction, operation and maintenance in rail infrastructure projects and increased FDI in defence from 26 to 49 per cent.
- Government has identified 25 such sectors in which India can come up as one of the world leaders. Also a dedicated freight and industrial corridors and smart cities are under construction as world class infrastructure will serve as the impetus from manufacturing. The **Department of Industrial Policy and Promotion (DIPP)**, which is the nodal body doing the back-end work for the 'Make in India' campaign, is setting up a dedicated team of specialists, including lawyers, consultants and tax experts under 'Invest India' to resolve any problems faced by investor. Its aim is to take the share of manufacturing in the country's GDP from a stagnant 16% currently to 25% by 2022, as stated in the National Manufacturing Policy, and to create 100 million jobs by 2022.
- '**Invest India**' is country's official agency with investment promotion and facilitation as its important function. It has been set up as a joint venture between FICCI (51% equity), DIPP (35% equity) and state governments (0.5% each), and its purpose is to become the first reference point for the global investment community. Currently, it takes 12 procedures and 27 days to start a business, 35 procedures and 168 days to get construction permits and 1,420 days to enforce contracts in India. An effort to reduce such lengthy procedures would be made.

- **E-Biz project** facilitates for single application for multiple clearances along with an inbuilt payment gateway. This has been set up by the centre and the plan is to get states also to go paperless and ensure online applications and clearances as soon as possible.

Inhibitors:

- **Labour Regulation:** Labour reforms stands out as an important impediment to manufacturing job growth and it deserves particular attention. India has among the strictest labour regulations in the world. There are about four dozen central laws and hundreds of state laws that govern labour issues, hence rendering the reforms a complex process. Labour regulation not only stands out because of its complexity or stringency but also because it links so directly to job creation. Of all the typical explanations for the failure of labour intensive manufacturing to take off in India that have been given thus far, excess labour regulation is perhaps the one which has the largest body of evidence establishing causality. Labour regulation needs to be singled because the unified and powerful political forces are pushing to preserve it. The great challenge here is not identifying the reforms or writing new regulations, but kindling of the political art that is needed to carry them out. Many compromises will be required to implement the agenda, inciting heavy opposition.
- **Inaccurate Land Records:** Land records in India are not only inaccurate and out-dated, but also painfully old and incompatible with modern times. Several states have not revised cadastral surveys since colonial days—leading to tremendous confusion and conflict when transferring ownership. This difficulty, like inadequate infrastructure, impacts every layer of society. For instance, the Land Acquisition, Rehabilitation and Resettlement Act of 2013 attempted to address these issues. But not much could be achieved. The new Legislation is now on cards. Political compulsions have limited its measures to a series of workarounds rather than applying direct fixes.

3.2 ECONOMIC: Economic factors include the inflation rate, exchange rate, interest rate, employment/ unemployment rate and other economic growth indicators. The economic factors faced by an organization have a significant impact on how a business carries on its operations in the future. The exchange rates affect the organization by affecting the cost of

imported and exported goods. Furthermore, the interest rates prevailing in the economy influence the cost of capital available to the organization and hence play an important role in the expansion and growth of the organization. The economy of India has been significantly stable, since the introduction of the industrial reform policies in 1991. As per the policy, reductions in industrial licensing, liberalization of foreign capital, formation of FIBP and so on, has resulted in a constant improvement of India's economic environment. The country registered a GDP of \$5.07 trillion in 2013 following a further improved GDP growth rate of 5% in 2014 as compared to 4.35% in 2013.

Facilitators:

- **GDP trends:** India is poised to grow 7.7 per cent in 2015 and 8 per cent in 2016 to become the fastest growing major economy, overtaking China. The slow growth in other BRICS countries could benefit India as global investors may have limited investment options in the medium term given the subdued economic outlook for some of the other emerging economies.
- **Favourable Union Budget:** General Anti-Avoidance Rule (GAAR) applicability deferment by two years, reduction of tax for royalty/fees for technical services (FTS) and amendments in indirect transfer pricing of assets have a positive influence on the Make-in-India roadmap. FDI, Disinvestment and Privatisation policies also come in its favour.

Inhibitors:

- **Low Capital Labour ratio:** One large advantage that competitors who have already established significant market share enjoy over India is a highly favourable capital-labour ratio. The large amount of capital investment East Asia received was a leading factor in its development of manufacturing. It has also accumulated years of invaluable experience India cannot so easily replicate. Countries such as South Korea (40 years of manufacturing experience) and China (25 years) have refined their processes in order to deliver a quality product at a competitive price

- **FDI still not enough:** Sceptics argue India would require a major shift in the amount of FDI flowing into manufacturing to acquire both the capital and know-how to jump-start a large export industry.
- **Global supply Chains:** Another advantage for established exporters is global supply chains, though the arguments run in both directions. On one hand, some argue today's exporters are already well integrated in a way that makes new entry difficult. On the other hand, global supply chains make manufacturers more nimble, able to shift operations quickly to the next market to offer rock-bottom wages. Hence, in the absence of rapid development of infrastructure and skills, manufacturing will prove fickle and fleeting.
- **Expanding Service Sector:** Manufacturing may no longer be the global growth engine it once was. Services have been growing, not just as a share of global GDP, but also as a share of trade. There is concern that the success of the service sector will impede the competitiveness of manufacturing. For instance, Raguram Rajan and Arvind Subramanian (incidentally, now both senior Indian government officials) worried back in 2006 that wages for skilled workers have been driven too high. Nicknaming the phenomenon the "Bangalore Bug," they argued manufacturers cannot compete in low-skill industries with razor-thin margins if they must pay high wages for their senior employees.

3.3 SOCIAL: Social factors include a wide variety of cultural and demographic aspects of society that form the macro-environment of the organization. Social factors normally are related to individual attributes and characteristics of the societal set up. They may include career attributes, age, distribution, population and its growth rate, health consciousness and safety awareness. Change in trends can also be an important social factor that impacts business environment. For instance, the rise in India's ageing population is resulting in a considerable rise in pension costs and increase in the employment of older workers. India has a population of more than 1.2 billion people with about 70% between the ages of 15 and 65. Therefore, there are structures with percentages according to age. These structures contain varying flexibility, in education, work attitudes, income distribution, and so on.

Facilitators:

- **Realizing India's Demographic Dividend & Job Creation:** About two-third of India's population is under the national average age of 26 years (versus 37 in China and 45 in the US and Western Europe). As a result India's potential workforce (age 15-59) is on track to increase from approximately 761 million to 869 million from 2011-2020 before swelling to 1 billion by 2022. By taking into account India had a workforce of just under half a billion in 2005 (26M Formal and 433M Informal) and subsequent growth since then, according to Ernst & Young 35 crore (347M) additional Indians will be eligible to enter the workforce during the next decade. All these statistics indicate that India has huge demographic dividend and the Government must make every effort to realise its potential to the best.
- **Opportunity for bridging Skill Gap:** There exists a \$20 billion market opportunity for companies that can bridge the skills gap. With such a huge influx of potential new talent coming on line each year, there is massive opportunity for scalable businesses that can help bridge the annual gap not just from 4.4M to 13M, but also towards the 50M annual trainees necessary for India to achieve its 10 year 500M trained goal by 2022. As pointed out by Dipra Mukha opadhyay of the National Skill Development Corporation (NSDC), India's vocational training sector needs "capacity expansion for skills training to the tune of eight to ten times" in the next 10 years. By combining the 500M training goal at the conservative cost of Rs 5,000 per student, the NSDC estimates there is a market opportunity of \$20 billion on the table during the next ten years.

Inhibitors:

- **Lack of skilled manpower.** India adds 12 million people to its workforce every year, less than 4 per cent have ever received any formal training. Our workforce readiness is one of the lowest in the world and a large chunk of existing training infrastructure is irrelevant to industry needs. Skills cannot be created overnight. For any skill development effort to succeed, markets and industry need to play a large role in determining courses, curriculum and relevance. For this, employers need to be put in the driving seat, with

the government acting as a regulator and not the implementer. The government has its task cut out. What is needed is a willingness to act, and to take the difficult decisions that can help realize the 'Skill India' dream.

- **Gender disparity in the literacy rate:** This has always been a characteristic feature of Indian demography from last so many years. There is a wide gender disparity in the literacy rate in India: effective literacy rates (age 7 and above) in 2011 were 82.14% for men and 65.46% for women. The low female literacy rate has had a dramatically negative impact on family planning and population stabilisation efforts in India. Lack of proper school facilities and sheer inefficiency of the teachers and trainers in Govt. run educational institutes is one reason that contributes to this malice. In addition, there is no proper sanitation in most schools. The study of 188 government-run primary schools in central and northern India revealed that 59% of the schools had no drinking water facility and 89% no toilets.
- **Weak school learning outcomes:** In K-12 education, India has achieved near-universal primary school enrolment, but only 63 percent of students reach the secondary level (grade 10) and just 36 percent complete upper secondary school (grade 12). Inadequate teacher training, teacher absenteeism etc. contribute to poor quality of education thus resulting in high dropout rates. Even those students who manage to progress to upper grades often perform unfavourably when compared with students around the world; India ranks 72 out of 73 nations in the Organisation for Economic Cooperation and Development's Programme for International Student Assessment (PISA) exams. The existing K-12 system also suffers from weak student teacher interaction, assessment and performance monitoring systems, poor administration etc.
- **Low employability of workers with higher education:** While India has an extensive system for higher education—the nation is projected to contribute 27 percent of the global growth in tertiary-educated workers between 2010 and 2030—quality remains a big problem. Graduates of Indian engineering and computer sciences colleges still need to be trained extensively to make them job-ready. This is a clear indication of some of the challenges facing higher education in India. One should not be surprised at the fact that

no Indian college is listed in the QS World University Rankings of the world's top 200 universities, while Singapore and China both have two in the top 50 universities in the world and Hong Kong has three.

- **Large vocational training gap:** Today, just about 10 percent of the Indian labour force has received some type of formal or informal vocational training. This compared with over 95 percent in South Korea, 80 percent in Japan, 75 percent in Germany, and about 68 percent in the United Kingdom offers a gloomy picture. In a McKinsey survey, 53 percent of employers in India complained that lack of skills was a leading reason for entry-level vacancies. India has the capacity to train about 20 percent of new workers entering the labour force each year. The National Council on Skill Development and the National Skill Development Corporation are working to expand skill development capacity by providing seed capital to private training firms, improving quality and standards, and developing certification frameworks. However, if current trends persist, the country is likely to have 30 million to 35 million more low-skill workers than employers will demand in 2020.
- **Weak Health Care Systems:** Today, India's health-care system struggles to meet the needs of its citizens; and this challenge will only grow large in the next decade. Public-sector efforts to boost health care have gained momentum in the past decade, following India's commitment to pursue the United Nations Millennium Development Goals. The government set targets to reduce the maternal mortality rate by three-quarter from 1990 to 2015 and to reverse the spread of HIV/AIDS, malaria, and other major diseases by 2015. Despite substantial efforts, however, India today seems likely to fall short of meeting Millennium Development Goals targets by 2015. Meanwhile, the burden of non-communicable diseases is growing. Of India's ten million deaths each year, about half are from chronic diseases such as diabetes, which require intensive and costly ongoing care.
- **Insufficient health-care resources** India's public spending on health care was only about 1 percent of GDP in 2010, less than a third of what Mexico, South Africa, and Brazil spend. About 70 percent of health-care spending is funded by households—and half of

that is by the richest 20 percent of households. While enrolment in the government sponsored health insurance plan has grown, it covered just over 25 percent of the population in 2010. This means that many Indians simply go without insurance and risk financial disaster: it is not uncommon for medical emergencies to push families into extreme poverty.

- **Limited effectiveness of public health services:** Poor access to clean drinking water and decent sanitation contributes to health complications, particularly in rural India. One in four rural families across India draws water from untreated taps and uncovered wells. Poor-quality water can cause illness and insufficient monitoring of water quality can lead to outbreaks before citizens are aware of any risk. Diarrhoeal diseases, for instance, account for one in six deaths annually among Indian children. India's government spent Rs. 118,000 crore (\$25 billion) on health care, water, and sanitation in 2012. However, we estimate that just 36 percent of public spending on health services translates into real health outcomes. In other words, health outcomes could be more than twice as good with the same level of spending. The infrastructure gap is serious, but with adequate funding and execution capability, it can be bridged. The task of filling the human resource gap will be more complex and time-consuming. Today, it takes two to three years to approve, build, and commence the operations of a well-functioning medical college, even assuming breakneck speed of execution. Clearly there are enormous needs for improvement across the Indian health-care system, and, we believe, the empowering technologies for India can play a very large role in addressing those needs.
- It is needless to say that well developed and well maintained infrastructure, particularly, roads and highways is vital for an efficient inbound and outbound logistics of a manufacturing firm to ensure efficient movement of raw materials and finished goods across the country as roads carry 65% of its freight in the country. With increase in vehicular traffic and congestion in the major cities of India and for smooth movement of large container trucks, it is imperative that the Government in association with private parties through public-private partnerships convert the single-lane or double-lane national and state highways to four or six lane roads to cater to the growing congestion

problem in India. However, most of these conversion projects are stuck at various stages of bureaucratic delays.

3.4 TECHNOLOGICAL: Technology is evolving at a rapid pace and consumers are becoming extremely tech-savvy. With the advent of new technology, older technology gets outdated and obsolete. The technological factors an organization faces include technological changes, R&D activity, obsolescence rate, automation and of course, innovation. If an organization does not look out for technological changes, it can lag behind its competitors. Technology significantly influences product development and also introduces fresh cost-cutting processes. India is served with both 3G and 4G technology which has facilitated several of their technological projects. Furthermore, the country also possesses one of the strongest IT sectors in the world, promoting constant IT development, software upgrades and other technological advancements. Recently, India has also attempted to launch their satellites into space.

Developing an understanding of what is PEST analysis becomes even more important when an organization is about to launch a new business or a new product as all these factors play an important role in determining the feasibility and profitability of the new venture.

Facilitators:

- **A huge market for indigenous technology:** Foreign companies are invited by the government from time to time. The government puts forward 4 arguments for such policies: 1. They bring capital. 2. They create employment. 3. They increase the export of the country. 4. They bring technology with them. Rajiv Dixit in his survey analyzed various statistics on Indian economy provided by the government itself and found surprising facts. Government statistics clearly show that as a result of the business being done by the foreign companies funds are clearly flowing out of the country instead of coming in. Most foreign companies as per their official account statements have invested small amounts of capital since their setup in India and now are reaping huge amount of profits from the Indian market. Another argument provided by the government on such policies is that foreign companies increase export of India. On the contrary it has been

found that all foreign countries are increasing the imports of the country. Most foreign companies aim at importing goods from their native countries and selling them in India and hence increasing the imports of the country. Many companies simply use the raw material of this country to produce packed goods and sell them at huge profits and hence draining wealth from the country. It is believed that foreign companies bring technology with them. Surveys show that most foreign companies bring no manufacturing technologies to India and neither do they setup any sort of research and development centre in India. Most companies import high-tech components from their native countries and simply assemble them here in India and sell. Thus due to the absence of domestic players' money goes out of India. The only organization in India that is high-tech is ISRO and DRDO which have developed truly high technology stuff and that too purely indigenous. When technology can be developed indigenously what is the point calling these foreign companies and letting them exploit the Indian market.

- **India's rapidly-evolving e-commerce market:** The upsetting power of e-commerce has not been felt yet in India. Only 0.3 percent of Indian retail sales took place online in 2013, compared with an estimated 8 to 9 percent in China and 6 percent in the United States. But the pieces are falling into place for Indian e-commerce to take off: online retail sales are growing by 140 percent a year and, more importantly, Indian companies such as Flip Kart and global players such as Amazon are developing e-commerce business models that are adapted to the unique challenges of the Indian economy. Indian e-commerce should gather additional momentum as more Indians gain access to smart phones and electronic payment systems, and companies continue to invest in refining their business models. Flip kart says 20 per cent of purchases are now made with mobile apps. Flip kart raised \$1 billion from investors in 2014, and Amazon has announced plans to invest \$2 billion in an Indian e-commerce business. Customers, meanwhile, have begun to expect continuing innovation in service quality and delivery for digital services, even beyond e-commerce.

Inhibitors:

- **Lack of affordable and quality power:** The 2015 edition of BP's Energy Outlook projected India's energy production rising by 117% to 2035, while consumption grows by 128%. According to McKinsey and Company, 30% import share in fuel demand; 24% electricity lost in transmission and distribution and 300 million people lack electricity. A complex system of subsidies and price controls has limited investment, particularly in resources like coal and natural gas. Delay in environmental clearances and shortage of fuel supply are some of the major challenges faced by the Indian power sector. There is an acute demand for more and more reliable power supplies. One-third of the population is not connected to any grid.
- **Unleashing India's Innovation:** Lack of the main means of tapping into global knowledge are trade, foreign direct investment, technology licensing, copying and reverse engineering, foreign education and training, and accessing foreign technical print information and through the internet. On all these counts, China has been more aggressive and systematic than has India

4. RECOMMENDATIONS AND SUGGESTIONS

Following suggestions are proposed that will help the "Make in India" campaign:

1. The tax burden can be lightened by introducing a single, nationwide goods and services tax. This will also facilitate trade across states.
2. Reducing administrative burdens for firms by cutting red tape, improving online processing options, lessening points of contact through single-clearance windows, and winnowing of out-dated regulation so that ease of doing business in India could be improved.
3. Corruption must be met with insistent approaches like imposing Jan Lokpal Bill stringently.
4. Overcoming Land acquisition challenges and coordinating state and central policies for the same.

5. Improving the employability of general and engineering graduates through skill development.
6. Infrastructure development of major roads and highways in the country.
7. Capacity addition in the power sector to meet industrial energy demand.
8. Strengthening the capabilities of the CISF to meet the growing demand for industrial security.

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