

Modinomics and Its Implications for Korea - India Cooperation

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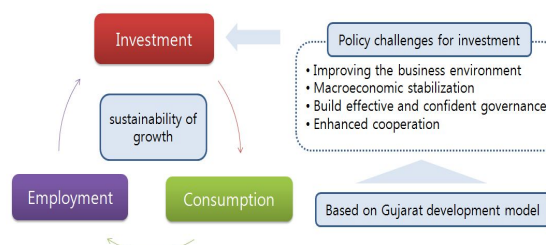
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What is Modinomics?

The government of India is pushing ahead with a series of economic reform policies, named 'Modinomics' after Prime Minister Narendra Modi, focusing on high growth and business-friendly environment. Modinomics emphasizes the virtuous circle of investment that promotes employment and consumption, which induces additional investment. The government of India has been concentrating on improving the business environment by easing or removing various regulations related to investment, and also by establishing reliable and efficient governance. The government of India has especially placed a priority on attracting private and foreign investment to infrastructure development and manufacturing sector promotion, based on key policies of Modinomics, such as smart cities, the development of the Industrial Corridor, and the Make in India campaign. As a part of his increasingly active 'sales diplomacy', Modi has visited several countries, including Japan and China; holding summit meetings with the leaders and receiving promises of massive investment. As a result, the government of India secured investment commitments of 35 billion

and 20 billion dollars, respectively, from Japan and China. Japan, in particular, has been pushing forward with the development of 11 industrial zones, a rapid transit railway, and a smart city.

Figure 1. Modinomics Mechanism



Key policies of Modinomics

Make in India

Make in India is the core policy of Modinomics. Prime Minister Modi launched the Make in India initiative with the primary goal of making India a global manufacturing hub, by encouraging both multinational as well as domestic firms to manufacture their products within the country. The major objective behind the initiative is to focus on job creation

and skill enhancement. For the Make in India campaign, the government of India has identified 25 priority sectors including the automotive, defense and pharma industries that shall be promoted adequately.

The initiative plans to boost the manufacturing sector growth to 12-14% per annum over the medium term, and to increase the share of manufacturing to GDP from 16% to 25% by 2022. The government of India is striving to create business-friendly environment and to reduce regulations by removing obstacles.

Table 1. The Vision of Make in India

■	An increase in manufacturing sector growth to 12-14% per annum over the medium term
■	An increase in the share of manufacturing in the country's gross domestic product from 16% to 25% by 2022
■	Creation of 100 million additional jobs by 2022 in the manufacturing sector
■	Creation of appropriate skill sets among rural migrants and the urban poor for inclusive growth
■	An increase in domestic value addition and technological depth in manufacturing
■	Enhancing the global competitiveness of the Indian manufacturing sector
■	Ensuring the sustainability of growth, particularly with regard to the environment

Source: <http://www.makeinindia.com/>

Smart City Development

India is planning for 100 new smart cities and will develop modern satellite towns around the existing cities under the smart city program. India's smart city plan is part of a larger agenda to create industrial corridors between India's metropolitan cities. These include the Delhi-Mumbai Industrial Corridor, the Chennai-Bangalore Industrial Corridor and the Bangalore-Mumbai Economic Corridor. It is expected that many industrial and commercial

centers will be recreated as smart cities along these corridors.

The Ministry of Urban Development of India has launched a holistic city rejuvenation program for the 100 cities in India, which aims to improve physical, social, economic and governance infrastructure. Also, this program helps reinforce India as a business-friendly international manufacturing hub with sustainable infrastructure that will facilitate job creation.

Table 2. India's Smart City Program

	Contents
Definition	Developing the entire urban eco-system, which is represented by the four pillars of comprehensive development - institutional, physical, social and economic infrastructure.
Vision	Improving the quality of life and attracting people and investments to the City, setting in motion a virtuous cycle of growth and development.
Coverage	100 cities
Duration	5 years (FY 2015/16~ to FY2019/20)
Financing (by Government of India)	The Central Government proposes to give financial support to the Mission to the extent of Rs. 48,000 crores over five years i.e. on an average Rs. 100 crore per city per year. An equal amount, on a matching basis, will have to be contributed by the State/ULB.
Strategy	Retrofitting, Redevelopment, Greenfield, Pan-city

Source: Mission statement and Guidelines (2015). Ministry of Urban Development of India

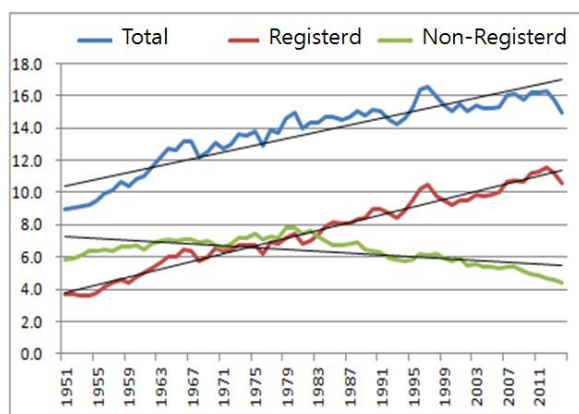
Characteristic of India's Manufacturing Sector and Infrastructure Development

Manufacturing

Although the manufacturing/GDP ratio in India is approximately 16%, its growth rate in the manufacturing sector is the fastest among emerging countries, and advancements in the

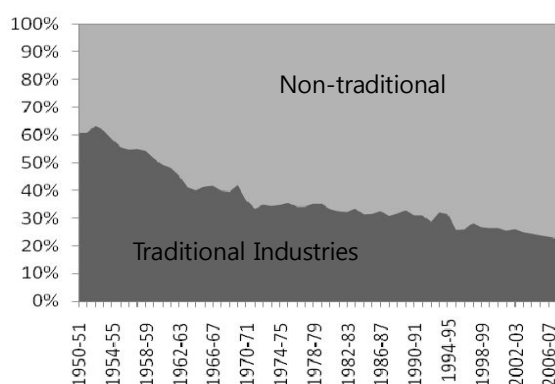
manufacturing have also witnessed swift progress. The ratio of registered manufacturers employing more than 10 workers to GDP has increased by 2.8 times, from 3.7% in 1950/51 to 10.6% in 2013/14, and the ratio of non-traditional registered manufacturing, such as petrochemical and automobiles, increased to 75% in 2007/08 from 39% in 1950/51. The elasticity of employment in private manufacturing has also risen at a rapid pace, though the overall elasticity of employment has decreased over time.

Figure 2. The Ratio of Manufacturers to GDP



Source: CEIC.

Figure 3. The Ratio of Non-traditional and Traditional Industries in Registered Manufacturing



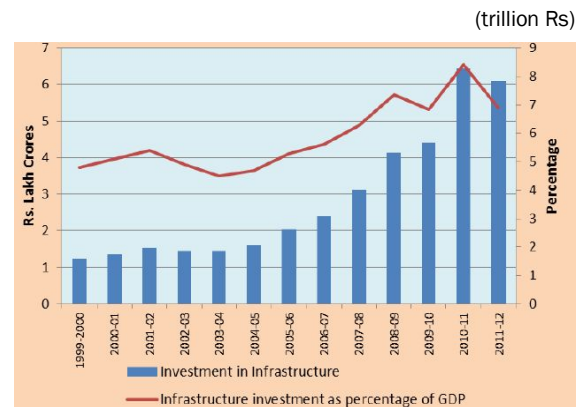
Source: Mazumdar (2012), p. 28

The innovation of the manufacturing sector will be led by the 'Make in India' policy. It is also possible that employment will continue to record stable growth. However, it will take considerable time for India to emerge as a world-class manufacturing hub like China, as India's current manufacturing ratio to GDP is still half that of China's.

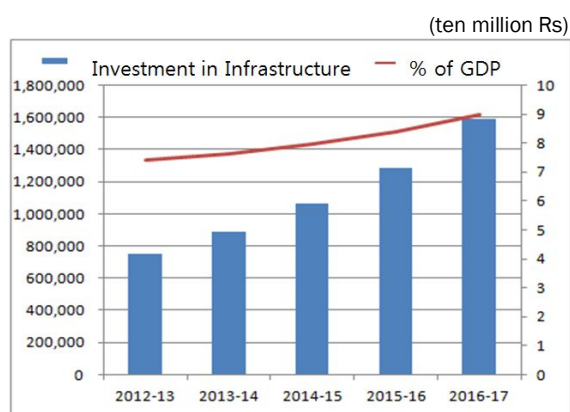
Infrastructure

Investment into infrastructure has been increasing after the conclusion of the 11th 5-year development plan (2007-2012), as infrastructure investment as a percent of GDP initially was 5% during the 10th 5-year development period, and subsequently recorded 7.2% and 8.2% respectively during the 11th and 12th 5-year development periods.

Figure 4. 10th, 11th 5-year Development Plan



Source: Ministry of Statistics and Program Implementation of India Government. 2014. INFRASTRUCTURE STATISTICS 2014. P. 31

Figure 5. 12th 5-year Development Plan

Source: 12th 5-year Plan (2012-2017). P. 90

Recently, infrastructure investment has been expanding in the private sector. The proportion of private investment in the 10th 5-year development plan was 1.1% of GDP (25% of total infrastructure investment); on the other hand, investment in the 11th 5-year development plan was 3.9% of GDP (48% of total infrastructure investment). Meanwhile, after the Modi government was established, the relevant ministries and state governments have made more efforts to reform regulatory issues. As a result, delays and interruptions in infrastructure development are on a gradual decline.

Cooperation between Korea and India

Considering the ongoing slowdown of economic growth in China, more active cooperation with India is called for. Also, in order to overtake the gap between Korea and Japan in terms of economic cooperation with India, strategies must urgently be established for expediting such cooperation. In addition, to make good use of the 10 billion dollars available, agreed to at the Korea-India summit in May 2015, the development of specific and concrete projects and strategies must be under-

taken with great urgency.

We suggest the development of a ‘Korean Industrial City’, as a new economic cooperation project with India. It dovetails neatly with the key policies of India’s government, namely its focus on the promotion of the manufacturing sector, development of infrastructure, and industrial corridors. Also, Korea can take advantage of its extensive experience and know-how regarding development, including those on industrial cities, new cities, innovative cities, and administrative cities. The development of a ‘Korean Industrial City’ in particular would provide a marvelous opportunity to promote the investment of Korean firms into India.

To minimize development risks, as many stakeholders should participate as possible. It is especially important for the participation of firms that are specialized and well-suited for entry into manufacturing-oriented new towns, along with firms affiliated and cooperating with them. The governments, public and private sectors, and financial institutes of both India and Korea should also participate. The development of manufacturing-oriented new cities based on cooperation with large firms and cooperative firms can simultaneously minimize investment risks, such as vacancy problems. The utilization of the entirety of the 10 billion-dollar infrastructure development fund, including the 1 billion dollars from the EDCF, together with KSP-based projects will enable the smooth and efficient progress of activities such as feasibility studies, building master plans and urban infrastructure, aligning related institutions and transferring operating knowledge, at minimum risk.

In order to develop a ‘Korean Industrial City’ efficiently and swiftly, related policies must be prepared and formulated beforehand. The first

stage of these preparations involves selection of state and city, followed by negotiations with relevant organizations and agencies. The co-operative involvement of cities should start at the very beginning, while the development plan is being conceived, so there is a greater possibility of securing 'high return' cities and regional projects in advance.

Also, due to the difference in fiscal conditions and willpower in connection with development, and awareness of land acquisition by the state, the selection of a target city should proceed with care. So far, it is most reasonable to consider the six states included in the Delhi Mumbai Industrial Corridor project as a priority. The list of six states includes Gujarat, Maharashtra, Uttar Pradesh, Haryana, Rajasthan, and Madhya Pradesh. Other states to be considered in addition are Punjab and Andhra Pradesh.

Second, it is important to organize a consortium consisting of firms moving into industrial zones in combination with the government, public and private sectors, financial institutions, and international organizations. Due to Korean firms' lack of experience in overseas projects involving investment development, the government and public organizations should communicate the necessity for such projects to Korean firms, and create a favorable atmosphere for participation. Furthermore, they should lead the way in building a consortium by cooperating actively with firms that move into new cities and industrial zones.

Most of all, a system needs to be organized to drive development projects forward by searching for target cities or states, and build a consortium step by step. Also, discussions for organizing an enforcement system should begin. The government and public sector must first provide support for related consultative groups,

followed by the formation of a consultative group that brings together large firms and SMEs, and financial institutions. Attracting the participation of firms will be relatively easier with the fund of 10 billion dollars available for development funding.

Lastly, it is necessary to build a strategy for developing projects of reasonable scale, focusing on high-quality, low-cost industry-oriented smart cities and taking advantage of Korea's experience in short-term development. This strategy offers a practical way for Korea to differentiate itself from the massive development models of Japan and China, and also to spread out to other states and cities in India using the Korean industry-oriented smart city.

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