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MAKE IN INDIA: A REALITY OR AN ILLUSION FOR THE FOREIGN DIRECT INVESTMENT

Lipsa Das

Research Scholar, P.G. Department of Commerce, Berhampur University, Berhampur, Ganjam, Odisha, Pin- 760007

ABSTRACT Rapidly increasing global competition has provided the manufacturers from around the globe the opportunities of cheap labour, raw material, potential high profit making markets. The insight of the role foreign direct investment inflows plays in the development process has evolved over time. FDI inflow acts as a stimulant to the growth process for the economy as a whole. “Make in India” is an international marketing strategy, conceptualized by the Prime Minister of India, Narendra Modi to attract investments from businesses around the world and make India the manufacturing Hub. This initiative focused on removing the barriers on FDI investment in India across various sectors. It is a new national program designed to facilitate investment (both domestic and foreign) in India, fostering innovation, intensify skill development, generate employment opportunities, preventing brain drain and making the use of internationally standardized technology affordable for Indian citizens. The Make in India initiative resulted into affirmative changes in the FDI flow in the country which is a positive sign for the growth of the country as a whole. India may surpass China in attracting foreign direct investment, as after the implementation of the reforms in India. After the campaign, FDI equity flow through automatic route and approval route is 90.24% and 9.76% respectively. The rising FDI inflows has not only provided a stable source of financing for the current account deficit problem, but also expected to bring technical know-how, which may help in boosting India's productivity growth in the near future.

KEYWORDS : Foreign Direct Investment, Make in India, India's productivity growth.

Introduction:

An ancient nation like India has undergone many evolutionary cycles. A well admired supremacy of ancient India in the field of Science and technology requires no mention. But with the advent of modern era, many western societies surpassed India in term of advancement in Science and technology. But India is slowly re-emerging to acquire its leadership position. On 14th August 1947, Nehru had declared: “Long years ago we made a tryst with destiny, and now the time comes when we shall redeem our pledge. The achievement we celebrate today is but a step, an opening of opportunity, to the great triumph and achievements that await us.” He reminded the country that the tasks ahead included “the ending of poverty and ignorance and disease and inequality of opportunity”. These were the basic foundations on which India embarked upon its path of development since gaining independence in 1947. With Asia developing as the outsourcing hub of the world, India is soon becoming the preferred manufacturing destination of most investors across the globe. The objective of India's development strategy has been to establish a socialistic pattern of society through economic growth with self-reliance, social justice and alleviation of poverty.

Investment in India provides the base and pre-requisite for economic growth and development. Apart from a nation's foreign exchange reserves, exports, government's revenue, financial position, available supply of domestic savings, magnitude and quality of foreign investment are necessary for the well being of a country. The role of FDI in the growth process has been a burning topic of debate in several countries including India. FDI is a vital ingredient of the globalization efforts of the world economy. The growth of international production is driven by economic and technological forces. It is also driven by the ongoing liberalization of Foreign Direct Investment (FDI) and trade policies. One outstanding feature of the present-day world has been the circulation of private capital flow in the form of foreign direct investment (FDI) in developing countries, especially since 1990s. Since the 1980s, multinational corporations (MNCs) have come out as major actors in the globalization context. This experience may be related to the broader context of liberalization in which most developing and transition countries have moved to market-oriented strategies. India, post liberalization, has not only opened its doors to foreign investors but also made investing easier for them by implementing many measures. According to the International Monetary Fund, FDI is defined as **“**Investment that is made to acquire lasting interest in an enterprise operating in an economy other than that of investor. The investor's purpose is being to have an effective voice in the management of enterprise.”

A.T. Kearney's 2007 Global Services Locations Index ranks India as the most preferred destination in terms of financial attractiveness, people and skills availability and business environment. The Economic Liberalisation started in India in the wake of 1991 economic crisis and since then FDI has steadily increased. It were Manmohan Singh and P.V. Narasimha Rao who bought FDI in India, which subsequently generated more than one crore jobs. According to Financial Times, in 2015 India overtook China and the US as the top destination for Foreign Investment. In the first half of 2015, India attracted investment of $ 31 billion compared to $ 28 billion and $ 27 billion of China and the US. All this could be possible due to the continuous and constant initiatives of our Government at the centre.

The 15th and current Prime Minister of INDIA **“Mr.NarendraModi”** unveiled the **“MAKE IN INDIA”** program on September 25th 2014 in New Delhi. He along extending an invitation to foreign firms to invest in INDIA also solicited the CEOs of domestic firms to invest in INDIA by saying that, **"There is no need to leave the nation. We want our companies to shine as MNCs”**. The MAKE IN INDIA program laid the foundation of India's new national manufacturing policy and rolled out the red carpet to both domestic and international industrialists with an aim to make India a manufacturing hub that will in turn boost the employment and overall growth of India. The government's flagship campaign intended to boost the domestic manufacturing industry and attract foreign investors to invest into the Indian economy with an intention of reviving manufacturing businesses and emphasizing key sectors in India.

Rationale of the Study:

With increasing globalization and rapidly changing dynamic trends, India too needs to develop its infrastructure in order to militate its presence in the global picture and to match the rising demands and the living standard of its citizens. When more global and local players will invest in a country, it will boost the trade and economic growth, develop its infrastructure, and generate more employment opportunities for its citizens. The study focuses on the importance of various available modes of financial services along with the focus on how the potential of country's work force can be capitalized and enhanced in order to bring the desired change and accelerate the desiderated growth of different sectors in India. The main aim behind this study is to bring forward the role of India's human resource and financial services in order to build best in class economic development in India.

Objective of the Study:

The objective of this study is to understand concept of the 'Make in India' momentum of the Government in connection with the liberalization that has taken place in Foreign Direct Investment (FDI) policy of the government and analyze future impact of combined effect of both 'Make in India' and FDI on Indian Economy.

1. To find out the effect of FDI on economic development after launch of "Make in India" campaign.
2. To study about the role of FDI inflows and its contribution in increasing output.

Review of Literature:

Sharma (2000) used a multiple regression technique to evaluate the role of FDI on the export performance in the Indian economy. The study concluded that FDI does not have a statistically significant role in the export promotion in Indian Economy.Klaus (2003) in his paper "Foreign Direct investment in Emerging Economies" focuses on the impact of FDI on host economies and on policy and managerial implications arising from this (potential) impact. The study finds out that as emerging economies integrate into the global economies international trade and investment will continue to accelerate. MNEs will continue to act as pivotal interface between domestic and international markets and their relative importance may even increase further.

Dunning (2004) in his study "Institutional Reform, FDI and European Transition Economics" studied the significance of institutional infrastructure and development as a determinant of FDI inflows into the European Transition Economies. The study examines the critical role of the institutional environment (comprising both institutions and the strategies and policies of organizations relating to these institutions) in reducing the transaction costs of both domestic and cross border business activity.

Aggarwal.S, et al. (2012) in their paper studied the need of FDI in India, to exhibit the sector-wise & year-wise analysis of FDI's in India, to rank the sectors based upon highest FDI inflows. The results revealed that Mauritius is the country that has invested highly in India followed by Singapore, Japan, and USA and so on.Following the results of Aggarwal.S, et al. (2012), Vyas, A.V. (2015) in his study highlighted country wise approvals of FDI inflows to India and the FDI inflows in different sector for the period April 2000 to June 2015. The findings of the study were in congruence to the findings of Aggarwal.S, et al. (2012) that Mauritius emerged as the most dominant source of FDI contributing.

Sagar. R, and Lalitha, (2013) in their study found that the country is far behind in comparison to some of the developing countries like China. However, traditional industrial sectors like food processing industries, textiles, etc. which were once important sectors attracting larger FDI, have given way to modern industrial sectors like electronics and electrical equipments, etc.

Rao.M et.al (2015) in their conceptual paper gave the sector-wise distribution of FDI inflow to know about which has concerned with the chief share. He found that the inflow of FDI in service sectors and construction and development sector gained much interest of investors whereas in other sectors it has been quite poor.

Research Methodology:

The study is descriptive in nature. Secondary data has been used for the purpose of analysis. The data on various quantitative variables have been collected from various reports like Reserve Bank of India Database on Indian Economy, database of department of Industrial Policy and Promotion. Tables have been used for the purpose of analyzing the relationship between 'Make in India' initiative launched in September 2014 and FDI inflows in India. The required data has been collected from various sources i.e. research papers, various Bulletins Of Reserve Bank Of India, Publications from Ministry Of Commerce, Government of India.

Philosophy Behind Make In India And Foreign Direct Investment

Make In India	Foreign Direct Investment
• Enforce inflow of FDI • Gearing-up capital investment • Deploy local technology and skills • Reduction in foreign exchange outflow with decrease in imports • Boosting the national economy through local manufacture • To make India as a manufacturing hub	• Attract foreign investment into the country • Supplement domestic capital • Transfer of technology and skills • Accelerate foreign exchange inflow into the country • Establishing 'lasting interest' in a resident enterprise • Make in India for exporting to other countries to compensate repatriation

Data Analysis (Comparison of FDI Inflows):

Make in India' initiative resulted into significant changes in the FDI flow across various sectors. Reports also showed country wise differences in the flow of FDI. The table shows the data pertaining to changes in FDI post the launch of the 'Make in India' initiative.

Table 1: Data pertaining to FDI inflows (month-wise)

Year/ Month	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
2011-12	113.39	251.92	87.87	32.49	-25.46	55.13	56.21	-89.44	28.53	27.98	-39.29	-0.17	499.18
2012-13	224.16	220.995	110.56	-12.18	-13.32	40.72	78.00	98.66	209.38	103.46	110.96	234.90	1406.25
2013-14	3.24	29.59	220.75	61.41	207.84	-93.74	-63.10	-58.05	130.62	183.24	76.26	157.16	855.22
2014-15	180.63	87.76	102.28	79.23	168.44	112.60	110.72	68.29	60.62	3.87	137.09	-9.10	1102.44
2015-16	27.88	20.39	13.22	77.61	-4.75	-58.01	59.80	14.44	19.18	34.10	19.39	30.86	239.67

Source: Reserve Bank of India

Table 1 is showing data pertaining to month-wise changes in FDI inflows. Results of the data revealed that post the launch of the 'Make in India' Initiative in September 2014, there has been significant changes in FDI inflows month-wise. There has been tremendous raise in FDI inflows post the launch of the scheme. It signifies that this initiative has made significant changes in the FDI inflows. It is a positive sign for the investors for getting a good return on their investment in the Indian markets. This will help in the positive growth and development of the different sectors and the Indian economy as a whole.

Table 2:

Sectors Attracting Highest FDI Equity Inflows: Amount in Rs. Crores (US$ in millions)

Ranks	Sector	2013-14 (April-March)	2014-15 (April-March)	2015-16 (April-March)	Cumulative Inflows (April 2000-June 2015)	Percentage to total inflows (in terms of US$)
1.	Services Sector	13,294 (2,225)	19,963 (3,253)	4,036 (636)	209,578 (43,350)	17%
2.	Construction Development	7,508 (1,226)	4,582 (758)	216 (34)	113,355 (24,098)	9%
3.	Computer Hardware and Software	6,896 (1,126)	13,564 (2,200)	16,245 (2,556)	89,481 (17,575)	7%
4.	Telecommunications	7,987 (1,307)	17,372 (2,895)	2,517 (395)	86,609 (17,453)	7%
5.	Automobile Industry	9,027 (1,517)	15,794 (2,570)	6,914 (1,094)	70,906 (13,477)	5%
6.	Drugs and Pharmaceuticals	7,191 (1,279)	9,211 (1,523)	1,370 (215)	66,652 (13,336)	5%
7.	Chemicals (other than Fertilizers)	4,738 (878)	4,077 (669)	1,518 (251)	50,909 (10,588)	4%
8.	Power	6,519 (1,066)	3,985 (657)	1,717 (271)	48,357 (9,828)	4%
9.	Trading	8,191 (1,343)	16,962 (2,761)	5,679 (897)	49,479 (8,958)	4%
10.	Metallurgical Industries	3,436 (568)	2,897 (472)	845 (133)	41,992 (8,680)	3%

Source: RBI bulletin

Table 2 shows the sectors which have attracted highest FDI equity inflows. The table revealed that the highest share was from the service sector. It was 2,225 US$ in 2013-14 and it increased to 3,253 US$ post the launch of the 'Make in India' initiative. Percentage share of service sector amounted to 17% (highest share). The share was lowest for Metallurgical Industries. It was 568 US$ in 2013-14 and it decreased to 472 US$ post the launch of the 'Make in India' initiative. Its percentage share amounted to3% of total inflows (lowest share).

Fulfilling the "Make in India" Vision:

The Government of India, knowing the importance of the sector to the country's industrial development, has taken a number of steps to further encourage investment and improve the economy."Make in India" 4mission is one such long term initiative which will help to realize the dream of transforming India into a „manufacturing hub . The prime minister's call for zero defects and zero effect manufacturing resonates well with our industry as we grow and produce for the world with concern for the environment. The Government in the last few months has taken a lot of steps in this direction. Major ones being:

- With the easing of investment caps and controls, India's high-value industrial sectors – defence, construction and railways – are now open to global participation
- Policy in Defence sector liberalised and FDI cap rose from 26% to 49%.
- 100% FDI allowed in Defence sector for modern and state of the art technology on case to case basis.
- 100% FDI under automatic route permitted in construction, operation and maintenance in specified Rail Infrastructure projects.
- Process of applying for Industrial License & Industrial Entrepreneur Memorandum made online on 24X7 basis through eBiz portal.
- Major components of Defence products list excluded from industrial licensing.
- Dual use items having military as well as civilian applications deregulated.
- Process of obtaining environmental clearances made online.
- For all non-risk, non-hazardous businesses a system of self-certification to be introduced.

The Road Ahead:

There has been significant increase in FDI inflow after the launch of 'Make in India' Initiative. Further, the government is proposing to relax the FDI policy in several sectors, including asset reconstruction companies, insurance and pension with the aim of attracting more overseas investments. The rising FDI inflows has not only provided a stable source of financing for the current account deficit problem, but also expected to bring technical know-how, which may help in boosting India's productivity growth in the near future. Though the Government has hiked the sectoral cap for FDI over the years, it is time to revisit issues pertaining to limits in such sectors as coalmining, insurance, real estate, and retail trade, apart from the small-scale sector. Government should allow more investment into the country under automatic route. Reforms like bringing more sectors under the automatic route, increasing the FDI cap and simplifying the procedural delays has to be initiated. There is need to improve SEZs in terms of their size, road and port connectivity, assured power supply and decentralized decision-making. Geographical disparities of FDI should be removed.

Conclusion:

Make in India and fdi makes India an economic powerhouse. Make in India initiative, is a huge opportunity to India to become economic power-house of the world. FDI plays an important role in the long-term development of a country not only as a source of capital but also for enhancing competitiveness of the domestic economy through transfer of technology, strengthening infrastructure, raising productivity and generating new employment opportunities. It has been analyzed that there is high correlation between Industrial Production and FDI inflows. The effect of FDI on economic development ranges from productivity increased to enable greater technology transfer. The results of the tables revealed that there has been significant increase in the FDI inflows after the introduction of this initiative. This increase has been across various sectors, from different countries, in different time periods. The results thus revealed that New FDI policy helped in increasing FDI inflow across various sectors. The government is moving ahead with 'Make in India' India initiative by relaxing the sectors which were earlier not in the purview of New FDI policy. This will help significantly in ensuring balanced growth across various sectors throughout the country.

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