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MAKE IN INDIA AND ITS IMPACT ON FDI AND INDIAN ECONOMY: A STUDY

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ABSTRACT

The present honorable Prime Minister Shri Narendra Modi's visionary thrusts on "Make in India", "Swachch Bharat and Namami Gange", "Digital India", "Skill Development" along with minimum cost &maximum Governance have instilled new life and vigor to the role and performance of Indian Economy. Prime Minister of India, Mr. Narendra Modi launched 'Make in India' programme on 25 September 2014 to attract foreign investments from around the world and make India a manufacturing hub. The aim is to increase the share of manufacturing in country's GDP to 25% by 2022 from 16%, as stated in national manufacturing policy, and to create 100 million jobs by 2022. The main emphasis will be given on 25 sectors of the economy for job creation and skill enhancement. In order to revive the Indian economy such scheme has been launched. Make in India will improve the composition of Indian GDP which is the major cause of recession. Currently growth of GDP is due to service sector. Efforts should be made so that GDP rises due to manufacturing sector. This paper discusses the Make in India concept given by Prime Minister of India. It also discusses the Foreign Direct Investment. The aim of this paper is to make an analysis of impact of this campaign on foreign direct investment and economic growth of India. In the end, the critical assessment of make in India campaign is given and after that some suggestions are given to make this campaign more effective.

KEYWORDS: *Make in India, FDI, Economic Growth, Industrial Production, Manufacturing Hub.*

Introduction

The 15th Prime Minister of India Mr. Narendra Modi launched the "Make in India" program in September 25th 2014 in New Delhi He invited foreign firms to invest in India and also directed the CEO's 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 MNC". India is a country having vast natural resources and highest manpower. There are chances of economic development and rise in economic growth. One example is enough to understand this concept- Ferrari- a sports and luxurious car company is at present manufacturing all its units outside India. If anyone is interested in purchasing its car, the customer has to buy it from outside India, if the firm establishes its manufacturing plant in India, besides generating employment and the customer getting the car at very competitive rates and the firm will also be benefitted.

The logo of "Make in India" depicts a "Lion" which refers to 'King of Forest'. The aim is to make India the king in manufacturing sector by converting herself to a self dependent and self sufficient country and to give the Indian economy a worldwide recognition.

Policy for Make in India Program

- 100 percent FDI allowed in telecom sector.
- 100 percent FDI in single brand retail.
- Validity of industrial license extended to 3 years.
- Process of obtaining environmental clearances made online.
- For all non-risk, non-hazardous businesses, a system of self certification to be introduced.

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Foreign Direct Investment

FDI is a direct investment by a corporation in a commercial venture in another nation. The investing corporation must control 10 percent or more of the voting power of the new venture. Foreign direct investment is that investment, which is made to serve the business interests of the investor in a company, which is in a different nation distinct from investor's country of origin. A parent business enterprise and its foreign affiliate are the two sides of the FDI relationship. Foreign investments provide great stimulus for growth of the Indian Economy. The continuous inflow of foreign direct investments (FDI), which is now allowed across several industries, manifests the faith that foreign investors have in the country's economy. India received cumulative FDI inflows (including equity inflows, re-invested earnings and other capital) of US$ 546,452 million during the period April 2000-March 2018, according to data published by Department of Industrial Policy and Promotion (DIPP), Government of India. Total FDI equity inflows in India (including amount remitted through RBI's-NRI schemes) during April 2000-March 2018 stood at US$ 376848 million (RS. 2,075,911 crores)

Review of Literature

Prior to this study various studies have been conducted by different researchers. Some of the major works are given here.

Kathuria V. (2002), "Liberalization, FDI, and productivity spillovers-an analysis of Indian manufacturing firms" The results shows that after liberalization, the productivity of Indian industry, especially the foreign owned firms, has improved. The econometric results suggested that only "scientific', non-FDI firms have benefitted from the liberalization. For the "non-scientific" firms, the impact is found to be productivity depressing.

Bhattacharyya Jita, Bhattacharyya Mousumi (2012), "Impact of foreign direct investment and merchandise and services trade of the economic growth in India: an empirical study", the study revealed that there was a long term relationship between FDI, merchandise, service trade and economic growth of India, Bi-directional causality is observed between merchandise trade and economic growth, services trade and economic growth. An unidirectional causality is also observed from merchandise trade to services trade.

Farooqui (2016) mentioned in his study that FDI insurance coverage will play an important role in industrial growth of developing areas around the world. The paper stated that trend of FDI with India after the sector wise financial reforms.

Gupta (2016) stated in his study that FDI plays a significant role in commercial development of host country. FDI involves domestic funds, lots of production and increasing employment options in developing areas which will lead to commercial growth of the country.

Objectives of the Study

- To find out the effect of FDI on economic development after launch of "Make in India" campaign.
- To study the impact of Make in India campaign on GDP growth rate and industrial production.

Hypotheses

- There is positive impact on the FDI Equity Inflows due to the launch of the program Make in India on 25 September 2014 by Prime Minister of India.
- There is positive impact on the GDP growth rate and industrial production after the launch of Make in India campaign.

Research Methodology

The study is based on secondary data. The required data has been collected from various sources i.e. research papers, various bulletins of Reserve Bank of India, publications of Ministry of Commerce, Government of India that are available on internet.

Limitations of the Study

The study covers the period from January 2015 to July 2018. The period of study is very short.

Recent Investment Trends: Make in India

"Make in India" has received widespread support from industry leaders from both India and abroad as well as from the confederation of India Industry. Following investment trends have been done after the launch of the Make in India campaign.

- The Indian Government has signed a staggering USD 35 billion investment deal with Japan for infrastructure development.
- In January 2015, the Spice Group set a mobile phone manufacturing unit in Uttar Pradesh with an investment of Rs.500 crores.
- In January 2015, Hyun Chil Hong, the President and CEO of Samsung South West Asia, met with Kalraj Mishra, Union Minister of Micro small and medium Enterprises (MSME) "Samsung Technical Schools" has established in India.
- In February 2015, Hitachi said it had increased its employees in India from 10,000 to 13,000 and revenue for India has increased. An automobile plan had set up in Chennai in 2016.
- In February 2015, Huawei opened a new Research and Development (R&D) campus in Bengaluru. It had invested US$ 170 million to establish the research and development sector.
- In April 2015, Airbus had started manufacturing its products in India and invested $2 billion US dollars.
- In December 2015, Indian Railways signed two joint venture agreements with global transport majors General Electric and Alstom Transport for setting up two locomotive factories in Bihar with an investment of Rs. 40,000 crore.
- The defense ministry is auctioning a Rs. 60,000 crore ($8.8 billion) contract to design and build a Fighting Infantry Combat Vehicle (FICV)) in India. The contract was awarded in 2016. In December 2015, Reliance Defence had signed a manufacturing and Maintenance deal, potentially worth $6 billion, with Russia's Almaz-Antey, the maker of an air defence system that sources said the military was poised to buy.
- In December 2015, Russia's Rostech State Corporation tied up with Hindustan Aeronautics Ltd for manufacture of at least 200 Kamov 226T light helicopters to replace the ageing fleet of Cheetah and Chetak, in a deal estimated to be worth $1 billion under the 'Make in India' initiative.
- In March 2016, B.K. Modi group announced that it is going to set up and electric bus manufacturing plant near Moradabad, (U.P.). The investment is through a technological tie-up with BYD.
- In April 2017, Kia announced that the company would invest over $1.1 billion to build a car manufacturing plant in Anantapur, Andhra Pradesh.
- In July 2017, SAIC Motor announced that it is going to invest 2000 crore ($ 300 million) to build a car manufacturing plant in Halol, Gujarat.
- During Magnetic Maharashtra Convergence 2018, Thurst Aircraft Pvt. Ltd. Signed a MOU with Government of Maharashtra to built an aeroplane manufacturing plant near Palghar district (near Mumbai)with an investment of 35000 crores ($ 5.2 billion).
- In April 2018, During P M Modi's visit to Sweden, Biopharmaceutical Film Astrazeneca said it will invest around 590 crore ($ 90 million) in India over the next five years.
- In May 2018, the Indian Army announced a 50000 crore (US $ 7.0 billion) ammunition production project to be implemented in phases over a 10-year period.

Analysis of Investment after Make in India Campaign

In order to know the impact of Make in India campaign launched by Prime Minister of India on September 2014, a study and analysis have been done on FDI equity inflows (Month wise) during the calendar year 2015. A study was also done on GDP growth rate and Industrial production after the year 2012-13.

Table 1: FDI Equity Inflows and FDI Inflows in India

Financial Years		FDI Equity Inflows (USD Billions)	FD Inflows (USD Billions)
1.	2014-15	30.9	45.2
2.	2015-16	40.0	55.5
3.	2016-17	43.5	60.1
4.	2017-18	35.9	48.2

Source: RBI Bulletin and DIPP Bulletins.

Table 2: GDP Growth Rate

Year	Growth Rate (%)
2012	5.46
2013	6.39
2014	7.41
2015	8.16
2016	7.11
2017	6.74
2018	7.36

Source: www.business-standard.com

Table 3: Industrial Sector Growth

Year	Growth Rate (%)
2012	1.1
2013	0.9
2014	2.80
2015	3.1
2016	7.4
2017	7.5
2018	6.6

Source: www.business-standard .com

Analysis of Above Tables and Findings of the Study

The table number 1 shows the following results. Since the launch of Make in India, FDI in India has followed an extremely positive trend. FDI equity inflows witnessed a growth of 63% while FDI inflow hit the 55% mark. FDI inflows from April 2014 to December 2017 (USD 208.99 billion) are 39.24% of the overall FDI received in the country. For the first time, India crossed the USD 50 Billion mark in financial year 2015-16 with USD 55.5 Billion in FDI, due to the investment friendly policies and opening up of FDI allowance in various sectors. The highest FDI inflow of USD 60.8 Billion in 2016-17. Therefore we can say that due to Make in India program there is positive impact on FDI Equity inflows. Hence, our hypothesis is proved.

After analysis of Table 2 we observe that the growth rate (GDP) has increased after the launch of the “Make in India” campaign. The growth rate in the year 2012 was 5.46 which increased to 7.36% in 2018 and the growth rate was highest in 2015. It was around 8.16%. Hence there is positive impact on growth rate after this program. After analysis of Table 3 we observe that the industrial production has also shown an upward trend after launch of “Make in India” program. The industrial production rate was 1.1 percent in 2012, which increased to 6.6 percent in 2018. It is 7.5 percent in 2017 which is highest rate. Hence our hypothesis is proved that there is positive impact on the industrial production after the Make in India program.

Critical Assessment of Make in India Program

The make in India campaign has attracted about INR 2000 crores worth investment proposals. But then also it is criticized by academicians, politicians and officials on following grounds.

- Former Finance Minister of India Shri yashwant Sinha has expressed his views in his article in Economics Times that first we should “Make India” and “Make in India” will follow, first build the foundation of the country and everyone must improve the infrastructure.. According to him, Empirical evidences showed that high growth in India in the past years has been achieved largely on the strength of India’s domestic savings and its domestic demand. Foreign investment and foreign demand have played a marginal role. So we must try to increase our own savings and our own demands to develop our economy. Therefore, ‘Make in India’ must be preceded by ‘Make India’. According to him we need to install the following:
- Smart, diversified and profitable agriculture.
- Water for all our fields.
- Thousands of kilometers of national highways, with four, six and even eight-lane highways at places.
- Lakhs of kilometers of rural roads and bridges.

- Scores of new ports and hundreds of new airports.
- Lakhs of megawatts of electricity.
- Miles of dedicated rail freight corridors and passenger connectivity. Linking rivers wherever feasible.
- New smart cities
- Cleaner rivers
- Sanitation and millions of toilets.
- A modern and integrated transport system
- A digitized India
- A mobile phone in every Indian's hand and a million other things.
  - A number of technology based companies have not been enthused by the campaign and are getting their components manufactured by China.
  - The former RBI Governor Raghuram Rajan said that the government should rather focus on creating an environment where all sorts of enterprise can flourish and then leaving entrepreneurs to choose they want to do. He said, 'The world has a whole is unlikely to be able to accommodate another export led China.
  - Srikant Jena, a former government minister, stated that efforts to resolve caste and gender inequalities as well as regional imbalances were missing from the initiative.

Despite all criticisms, we can say that Make in India is a successful program, If it is implemented properly it can bring better results for India. We should try to remove all obstacles and put all efforts to make this program successful.

Suggestions

For making Make in India campaign successful following suggestions are given:

- In order to create healthy business environment, administrative machinery should be made efficient. The rules and regulations should not be stringent and procedure should be made simple.
- Tax concessions should be applied to companies who come and set up units in the country.
- There is immediate need to reforms labor laws and other policies which are fundamental for the success of this program. But still these laws have not been amended
- India should be more focused towards small and medium sized industries.
- India's Make in India campaign is compared with China's 'Made in China' campaign. India should constantly keep up its strength so as to outpace China's supremacy in the manufacturing sector.
- India must also encourage high tech imports, research and development, (R&D) to upgrade 'Make in India' give edge to edge competition to the Chinese counterparts campaign.
- Better management of government expenditure, especially subsidies.
- Encouraging state governments to also raise resources.
- An attractive scheme for conversion of idle gold into cash that will monetize the idle gold into investible resources.
- Undertaking a programme to raise domestic savings.
- The major requirement for economic growth is infrastructure facilities; hence it is the duty of the Government to develop various infrastructure facilities in India.

Conclusion

We have done the study of 3 years which is very short and on that basis any conclusion cannot be drawn but however from our study we found that there is increase in growth rate, inflows of FDI and industrial production. There is need of reforms in industrial strategies to make India a manufacturing hub. Favorable industrial framework need to be established that should attract more and more domestic as well as foreign industrialists towards Indian Territory. 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 etc. India has the capacity to push the GDP to 25% in next few years. Make in India mission is one such long term initiative which will realize the dream of transforming India into manufacturing hub.

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