"FDI Flow and Industrial Production-An impact analysis of Make In India Campaign"

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Abstract

Make in India campaign was launched by Prime Minister, Shri Narendra Modi on 25 September 2014, to support companies in manufacturing their products in India. The ambitious campaign has been launched with an aim to turn the country as a destination of global manufacturing. This campaign is attracting focus from global manufacturer leads to inflow of money, FDI. This study highlights the changes in FDI rate after and before introduction of Make in India and its impact on growth rate of country. In August 2014, the parliament of India permitted 49% FDI in the defense sector and 100% in railways infrastructure to boost inflow. The study has been conducted on secondary data collected from various government sources, RBI, DBIE , SEBI and database of department of Industrial Policy and Promotion, on inflows before and after the "MAKE IN INDIA" campaign. The study has been conducted on monthly data since January 2013 to September 2015, period before and after start of "Make In India" campaign. Graphical representation of data has been followed by correlation study on rate of change in FDI flow and Rate of change in IIPM, to show the linkage of FDI flow and manufacturing industrial in selected period.The study also highlighted problem of poor infrastructure as a major hindrance in success of this campaign.

Keywords: FDI, Index of Industrial production in Manufacturing (IIPM), Infrastructure, Make in India.

Introduction

The term Make in India is a ("Niyota", an Invitation) of foreign and domestic investors for the use of labor, capital and resources to manufacture goods in India. "Make In India" as it is now, is call for the International Investors and Entrepreneurs Abroad to Make their Investments In India which is now more corporate-friendly. India is one of the favorite destination for international FDI flow way back economic reforms in 1991. India ranked as one of the most ideal destination of financial attractiveness, skills and people availability and suitable business environment, as A.T. Kearney's 2007 Global Services Locations Index. Foreign direct investment (FDI) is a controlling rights of a business in a country by an entity of another country. FDI is generally refers as net inflows of foreign investment (inflow minus outflow) to acquire management interest in an company.

Horizontal FDI, arises when a firm replicates its home based activities at the same value chain stage in a host country through FDI.

Platform FDI, investment from home country into other country for the purpose of exporting to other countries.

Vertical FDI, identifies when an entity moves downstream or upstream in diverse value chains i.e., when firms perform value adding activities stage by stage in a vertical manner in the host country.

FDI encourage the development of the host country directly by creating benefits for local industry, share of technology, increase employment, enhancement in foreign reserve etc. It enables transfer resources and exchange of technology whereby countries are given access to new knowledge and skills. The technology and facilities provided increase the productivity of the workforce in the host country. The Investing countries get advantage in later stage in term of regular flow of return and resources. Currently government of India promoted a campaign named "Make In India" under leadership of our visionary prime minster Shree Narendra Modi , to provide conducive environment for FDI mainly in manufacturing sectors.

This study is documented in seven major sections, which includes Introduction as the first section. The second section is dedicated to the conceptual background in form of review of past research works. Section three provides highlight on understanding of Make In India campaign followed by objective of study as fourth section. Section five discussed the Research and Methodology and data presentation as part of the article for identification and justification of problem. Section six highlights the analysis of collected data, concluding remarks and scope for future research have been provided in Section Seven.

Literature Review

Various researches have been conducted to analysis flow of FDI and its role in economy for various countries. Klaus (2003) ,“Foreign Direct investment in Emerging Economies” indentify the impact of FDI inflow on host country economy, its policy and managerial implications. The study finds out integration of emerging economies into the global economy. Dunning (2004) “Institutional Reform, FDI and European Transition Economics” studied the role of institutional infrastructure and development as a accelerator of FDI inflows into the European Transition Economies. This study examines the critical role of the business environment in reducing the transaction costs of cross border business activity along with domestic activity. Sunday et al. (2004), in their work “Explaining FDI Inflows to India, China and the Caribbean: An Extended Neighborhood Approach” to influence study of economy indicators on flow of FDI, irrespective of the host and source countries relation and political environment. Boon (2001), “Foreign Direct Investment and Economic Growth” investigates the relationship between FDI and growth in economy. He highlighted bidirectional causality, between FDI and growth of economy in Malaysia i.e. while increase in GDP attracts FDI, FDI also contributes for enhancement of economy output. FDI has very significant role in the development and diversification of economy, as a result the economy is no longer perilously dependent on a few sectors, the manufacturing as the main engine of growth. The study of Dua and Rashid (1998) on the Indian economy does not maintain the unidirectional causality between FDI and Index of Industrial Production (IIP), conducted on monthly data. Sharma (2000) used a multiple factor regression tool to evaluate the role of FDI on the performance of export and its impact in the Indian economy. The study concluded that FDI does not show a statistically significance in the export promotion in Indian Economy. The same conclusion has been drawn by the research of Pailwar (2001). Chakra borty and Basu (2002) study reveals that GDP in India is not Granger caused by FDI in the short run dynamics while the trade policy had some positive short run impact on the FDI flow. The research publication by Sahoo and Mathiyazhagan (2003) also agree with the view that FDI inflow in India is not able to enhance the direct growth of the economy. Sharma, R. and Kumar (2013), study examines the effects of PE net flows in Indian Economy by considering macroeconomic variables like GDP on factor Cost(CGF), IIP, WPI, weighted average call money interest rates (CMR) etc.

No study has been conducted to find out the FDI flow in India post “Make in India” campaign. The study will highlight the impact of this campaign on Industrial production rate.

The understanding of Make in India

The term Make in India is a ("Niyota", an Invitation) of foreign and domestic investors for the use of labor, capital and resources to manufacture goods in India. "Make In India" as it is now, is call for the International Investors and Entrepreneurs Abroad to Make their Investments In India which is now more corporate-friendly.

"Made in India", was a slogan in early 80s that was implied that we should, as far as possible, buy goods manufactured in our home country. This was made-up to decrease the foreign imports and help our Balance-of-Payments situation.

Now "Make in India" is introduced to attract foreign investments which will not only benefit the multi-nationals or foreign investors, but also raise the bars of capital markets and productivity of India which will indirectly increase the purchasing power of people and thus the total economy.

The campaign identifies 25 sectors for investment, advancing national economy and it also aspires to create nearby 90 million new jobs in the manufacturing industry by 2025.

In India manufacturing sector contributes only 15% of GDP while it employees 12% of its workforce. In comparison to the service sector these numbers are very poor. The campaign aims at improving these statistics.

So 'Make in India' is an enterprising approach by our PM Shree Narendra Modi to ensure that products are manufactured in India by Indians and International participants for world. This is done with a vision to compete with China, Japan and rest of the world in the manufacturing. It focuses on the manufacturing in India by seeking for foreign investment for make in India with objectives like

- Employment for Indian Youths
- Poverty eradication
- Entrepreneurship Development
- Self-dependency by own venture
- Raising the GDP.
- Foreign currency inflow
- Increasing Per Capita income
- Enhancing standard of living

This action will certainly help generate billions of jobs and will be constructive to the national economy and establish Healthy relationship with different countries of world for everlasting business with growth and development.

Objectives of study

1. To find out the effect of "Make In India" campaign on flow of FDI
2. To study about the effect of "Make In India" campaign on Industrial Production.
3. To study about the role of FDI inflows and its contribution in increasing industrial output.
4. To highlights the obstacles in area of FDI flow to India.

Research Methodology

The study is based on secondary data. The required data on flow of FDI and index of industrial production rate in manufacturing sectors (IIPM) has been collected from various government sources, RBI, DBIE, SEBI and database of department of Industrial Policy and Promotion, before and after start up of "Make In India" campaign. The study has been conducted on monthly data since January 2013 to September 2015, period before and after start of "Make In India" campaign.

The correlation analysis has been done on rate of change in FDI flow and Rate of change in IIPM, to show the linkage of FDI flow and manufacturing industrial in selected period. Further regional statistics of flow of FDI has been shown to highlight the area specific problem.

Literature review

↓ **Content Analysis**

Understand the concept of MAKE IN INDIA

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Highlight the Index of Industrial production in different Sector

↓ **Impact Analysis**

Impact Analysis the impact of Make in India on flow FDI , find correlation between flow of FDI rate and IIPM

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To conclude and find Direction for Future research

Presentation and Analysis of data

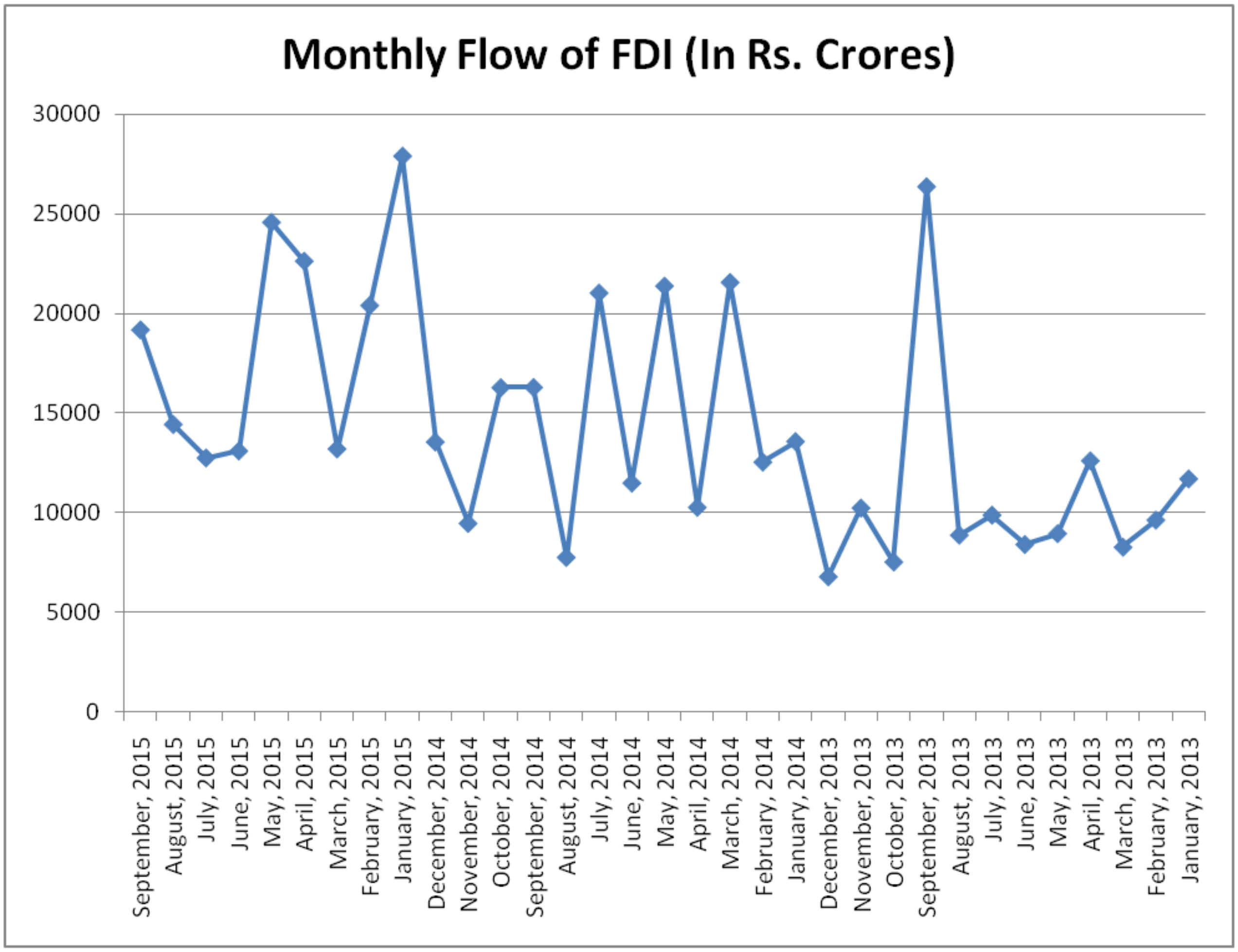
The Data of FDI flow, in Rs. Crores, have been collected from January 2013 till September 2015 from publication from department of industrial production ,Government of India. The data of Index of Industrial Production for Manufacturing industry (IIPM) have been collected from Data base of Indian economy, RBI for similar period. Table 1 shows the descriptive statistics of collected data.

	Monthly FDI	Monthly IIPM
No of Observation	33	33
Mean	14333 (In Rs.crore)	185.9 (on base year 2005)
Mode	27880 (In Rs. crore)	210.3(On Base year 2005)
Minimum	6819 (In Rs. Crore)	170 (On Base year 2005)
Skewness	0.805	0.669
Kurtosis	-0.425	0.026

Table 1: Descriptive Statistics of Data

The average monthly flow of FDI is Rs.14333 crores against the maximum flow of Rs.27880 crores in month of January 2015 during research period. The skewness for a normal distribution is zero, and any symmetric data should have a skewness near zero. Negative values for the skewness indicate data that are skewed left, the left tail is long relative to the right tail and positive values for the skewness indicate data that are skewed right. FDI and IIPM shows a positive skewness during study period.

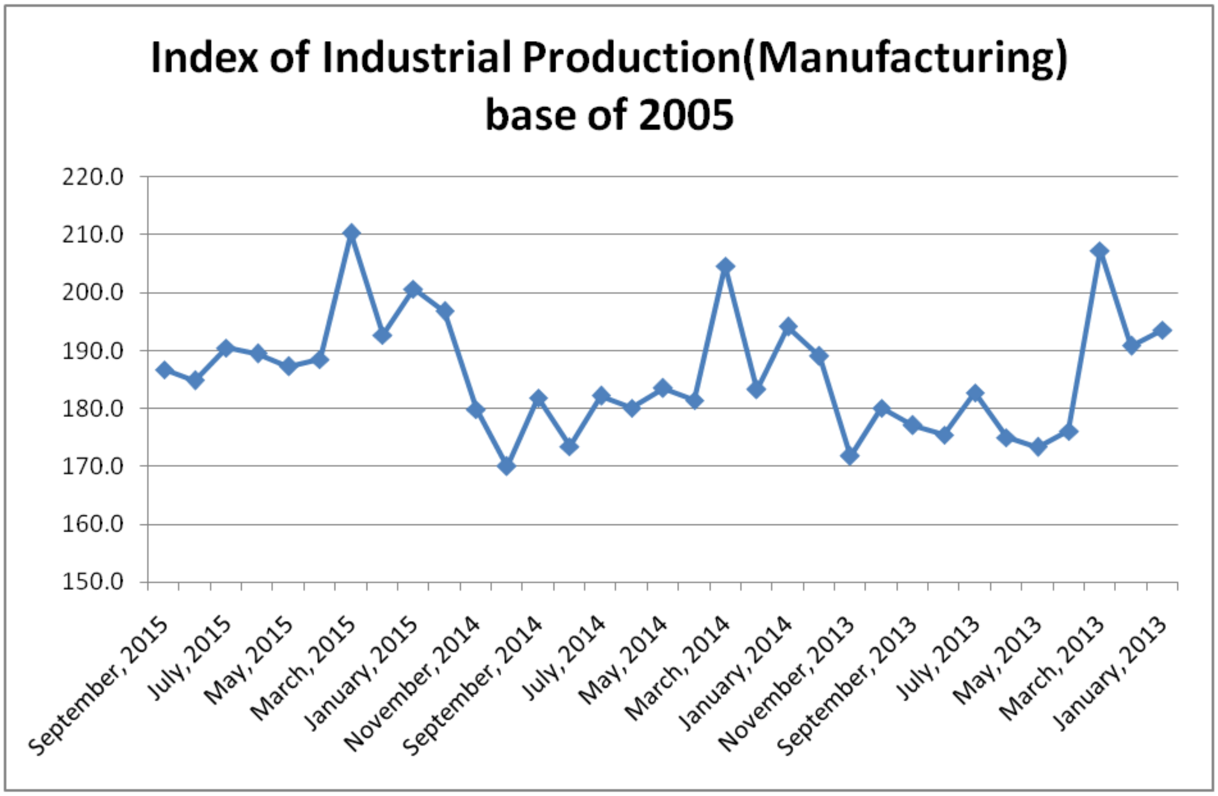
The value of kurtosis indicates a standard normal distribution , positive kurtosis indicates a "peaked" distribution and negative kurtosis indicates a "flat" distribution.FDI has negative kurtosis value while IIPM has positive kurtosis value.



Source: http://dipp.nic.in

Chart 1: Monthly flow of FDI (In Rs. Crores)

Chart 1 is dedicated to Monthly flow of FDI (in Rs Crorers) from January 2013 to September 2015, Period before and after announcement of "Make in India" campaign. The maximum flow of FDI is Rs.27880 crores in month of January 2015 while minimum flow in month of December 2013 of Rs.6819 crores. The volatility in monthly flow is comparatively less post "Make In India" campaign.



Source: http://dipp.nic.in

Chart 2: Index of Industrial Production (Manufacturing)base of 2005

Chart 2 is dedicated to Index of Industrial Production of Manufacturing sector(IIPM) , base of 2005 from January 2013 to September 2015, Period before and after announcement of "Make in India" campaign. IIPM is maximum 210 in month of March 2015 with comparison to minimum value of 173 in month of May 2013.

Sr no.	Region	% Share of FDI
1	MUMBAI	29
2	NEW DELHI	21
3	BANGALORE	7
4	CHENNAI	7
5	AHMEDABAD	5
6	HYDERABAD	4
7	KOLKATA	2
8	CHANDIGARH	0.5
9	JAIPUR	0.5
10	BHOPAL	0.5

Source: http://dipp.nic.in

Table 2: Region wise share in flow of FDI

Table 2 show the top 10 preferred region of FDI investment in India. There is uneven distribution FDI, which highlight a major problem area of uneven infrastructure distribution in country.

The karl pearson linear correlation coefficient 'r' has been calculated between monthly data of FDI flow and Monthly data of IIPM to measure the relation among two selected variable in study period, value of 'r' is + 0.23 lies in between $-1 < r < +1$. This reflects a positive correlation among both selected variables for study.

Conclusion and Recommendation

- As chart 1, explain variability in FDI inflow is less post MII in comparison to Pre MII period during study, similar movement can be observed in IIPM.
- Maximum FDI inflow has been recorded in month of January 2015, while maximum IIPM is recorded in Month of March 2015, post MII.
- Uneven distribution of FDI inflow in India .Mumbai region is receiving 29% of total inflow followed by Delhi region 21%.
- Huge uneven disparity exists among different region , as Bhopal even being a top 10 region, receiving just 0.5% of total Inflow.
- There are no change in regional share in FDI distribution, even after MII.
- There is need of a policy, framework for bridging the gap of uneven distribution of FDI inflow among various region in India. As the major motive of MII campaign to make India manufacturing Hub as nation.
- Balance infrastructure should be a priority for motivating an FDI attractiveness by investors, hence Policy makers should look forward.
- There should be a speedy implementation of the FDI proposals on ground level to translate the effect on Industrial production.

Scope for future research

The "Make In India" campaign is in very nascent stage to analysis on parameter of success or failure. The continuous study should be focus on its implication on the Indian economy in later stage.

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