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FDI : Making India A Global Manufacturing Hub

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Abstract

FDI is a vital component of investment for the sustained economic growth and development of the country. It is a source of filling gap of savings, trade deficit, revenue, foreign exchange reserves, management and technology.FDI largely depends upon the country's domestic policy and foreign trade policy. The main objective of the initiative 'make in India' is to make India a global manufacturing hub. Way back in 1991, India's economic reforms has generated strong interest in foreign investors and turning India into one of the favorite destinations for global FDI inflows. Global services location index ranks India as the most preferred destination in terms of financial attractiveness, people and skills availability.FDI stimulate the economic development of the country in which the investment is made, creating both benefits from local industry and conducive environment for the investors. FDI inflows before and after the 'make in India'campaign were compared using the quantitative data which has been collected from various reports like reserve bank of India database on Indian economy, database of department of industrial policy and promotion. 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. To gain investor confidence and attract high FDI in future, India would need to fix its poor infrastructure through investments in highways, ports and power plants.

Key words: Make in India, Manufacturing Hub, Domestic Capital formation.

INTRODUCTION

The rich primary sector of Indian economy is the suitable example for the growth and development of the nation. Fortunately, India has many powerful natural advantages including a big source of labor and a large domestic market. This led to the emergence of FDI in India.FDI is considered as a safest route of international capital inflows. It is a source of filling gap of savings, trade deficit, revenue, foreign exchange reserves, management and technology.

Make in India campaign surely makes India an investment destination and global hub for manufacturing and innovation. Make in India scheme also focuses on producing products with zero defects and zero effects on environment.

FDI stimulate the economic development of the country in which the investment is made, creating both benefits for local industry and conducive environment for the investors. For a developing country like India FDI is considered one of the safest route of international capital inflows. It is a source of filling the gaps of savings, trade deficits, revenue, foreign exchange reserves, management and technology. This largely depends upon foreign trade policy thus it is a vital component of investment for its sustained economic growth and development.

OBJECTIVES OF THE STUDY

1. To find out the effect of FDI in boosting national economy after the launch of 'make in India' campaign.
2. To study about the trends and patterns of FDI inflows.
3. To make India a Global manufacturing hub.
4. To study the FDI equity inflows – year wise, month wise, sector –wise.

RESEARCH METHODOLGY

The study is based on secondary data. The data has been collected form various sources i.e. research papers, various bulletins of reserve bank of India, publications from ministry of commerce, government of India that are available on internet.

'MAKE IN INDIA' INITIATIVE IMPACT

Due to the fast and changing scenario of the world, our Prime Minister Narenda Modi initiated the campaign 'Make in India' on 25th September, 2014 with an aim to turn the country into a global manufacturing hub. The main objective of this initiative is to focus on the heavy industry and public enterprises for making India a manufacturing hub and economic transformation of India by removing the unnecessary rules and regulations, making cumbersome administrative processes bit liberal and making the Government more responsive and accountable. But it is not an easy task. As India have many problems like poor infrastructure, cumbersome land procuring process, excessive regulations, rigid labor laws, frequent power cuts etc. political opposition and non co-operation of state governments may also create big hurdles in the growth prospects of the country. So to overcome these issues initiated an ambitious campaign to invite large business houses from around the world to invest and manufacture in India. Thus, this will explore huge job opportunities; produce good quality products and higher volume of goods and services. As aresult, it will turn India as a self-reliant country as well make it a global manufacturing hub.

The aim is to take a share of manufacturing in country's gross domestic product from stagnant 16% currently to 25% by 2022, as stated in national manufacturing policy, and to create 100 million jobs by 2022.

The campaign intended to boost the domestic manufacturing industry and attract foreign investors to invest into the Indian economy with an intention of reviving of manufacturing businesses & other sick units.

FDI AND ECONOMIC DEVELOPMENT

FDI stands for Foreign Direct Investment, a component of a country's national financial accounts. Foreign direct investment is investment of foreign assets into domestic structures, equipment, and organizations. The FDI can take any route or form to enter into any nation. Need of FDI depends on saving and investment rate in any country. Foreign Direct investment acts as a bridge to fulfill the gap between investment and saving. In the process of economic development foreign capital helps to cover the domestic saving constraint and provide access to the superior technology that promote efficiency and productivity of the existing production capacity and generate new production opportunity. An investment decision is thus a combination of an assessment of internal resources, competitiveness, market analysis and market expectations. Government trade barriers and policies may affect the FDI and may lead to less or more effective towards contributions and GDP of the economy.

SOME INSTANCES OF FDI INITIATIVES:

- Japan's Sony Corp. will start making its popular Bravia television sets in India as part of the government's Make in India initiative. Sony sees huge potential in television business as more and more Indian customers are expected to switch from CRT (cathode ray tube) to LCD televisions over the next few years.

- Switzerland-based chocolate maker Barry Callebaut is looking at setting up a manufacturing unit in India as part of its global expansion with a total of Rs.3,000 crore in domestic market.

- Chinese mobile handset maker, Coolpad Group Limited, has committed US$ 300 million for setting up a research and development (R&D) centre and its own assembly line in India by 2017.
- Amazon India expanded its logistics footprint three times to more than 2,100 cities and towns in 2015.
- Kellogg Co, world's largest cereal maker, is making large investments in manufacturing and plans to set up its first Research and Development (R&D) facility in India at Taloja, near Mumbai.
- The Government of Karnataka has signed an agreement with the Taiwan Electrical and Electronic Manufacturers Association for creating a Taiwanese electronic manufacturing cluster near the Bengaluru airport, with an investment expectation of Rs 3,200 crore (US$ 500 million).
- Posco Korea, the multinational Korean steel company, has signed an agreement with Shree Uttam Steel and Power to set up a steel plant at Satarda in Maharashtra.
- Foxconn has signed a Memorandum of Understanding (MoU) with Maharashtra state government to invest US$ 5 billion over the next three years for setting up a manufacturing unit between Mumbai and Pune.

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TRENDS AND PATTERNS:

TABLE NO. 1 - DIPP'S – FINANCIAL YEAR-WISE FDI EQUITY INFLOWS

(As per DIPP's FDI data base – equity capital components only):

S.NO.	Financial Year(April – March) [FINANCIAL YEARS 2005-06to 2015-16 (up to September, 2015)}	Amount of FDI Inflows		%age growth over previous year (in terms of US $)
		In Rs. crores	In US$ million	
1.	2005-06	24,584	5,540	47%
2.	2006-07	56,390	12,492	72%
3.	2007-08	98,642	24,575	125%
4.	2008-09	142,829	31,396	97%
5.	2009-10	123,120	25,834	28%
6.	2010-11#	97,320	21,383	(18%)
7.	2011-12#	165,146	35,121	(17%)
8.	2012-13#	121,907	22,423	64%
9.	2013-14#	147,518	24,299	(36%)
10	2014-15#	189,107	30,931	8%
11	2015-16# (April – September, 2015)	106,693	16,631	27%
CUMULATIVE TOTAL (from April, 2000 to September, 2015)		13,40,231	265,265	-

Note: 1. Inflows for the month of March, 2012 are as reported by RBI, consequent to the adjustment made in the figures of March, '11, August, '11 and October, '11.

2. Figures for the years 2010-11 to 2015-16 are provisional subject to reconciliation with RBI.

Source: fact sheet of FDI

INTERPRETATION: It is observed from table 1 that DURING 2006-07, the total FDI inflows were Rs.56390 crores (12492 in US$ million), showing a +125% of growth over the previous year (in terms of US $). Following this, in the year 2007-08, the total FDI inflows were Rs.98642 crores (24575 in US$ million), showing an increase of +97% of growth over the previous year. But it was observed that the increase made was at the declining rates than the previous one. Also in the year 2009-10 the total amount of inflows were 25,834$million, showing a decrease of (-) 18% over the period. Consequently, in the next year the decline rate turned (-)17%. Then in the year 2015-16, the inflows shot up at 106693rs. Crores giving 16,631$million figure.

TABLE NO.2 - FDI EQUITY INFLOWS (MONTH WISE) DURING CALENDER YEAR 2015:

S.no.	Calendar year 2015 (JAN-DEC)	Amount of FDI equity inflows	
		In Rs. crores	*In US$ million*
1	January, 2015	27,880	4,481
2	February, 2015	20,397	3,288
3	March, 2015	13,221	2,117
4	April, 2015	22,620	3,605
5	May, 2015	24,564	3,850
6	June,2015	13,115	2,054
7	July ,2015	12,769	2,007
8	August, 2015	14,446	2,220
9	September, 2015	19,181	2,897
Year 2015(upto september ,2015)		168,192	26,517
Year 2014 (upto september ,2014)		135,978	22,431
%age growth over last year		(+)24%	(+)18%

Source: fact sheet of FDI

INTERPRETATION: It is observed from TABLE NO.2 that in the month of January, 2015 the total amount of equity inflows were 27,880Rs.crores (4481US$million). In the month of March it declined to 13,221Rs. Crores, again following an increase to Rs.24,564crores In may, 2015. The month of September, 2015 shows the total funds of Rs.19,181crores. OF the total FDI equity inflows tillthe end of September 2015were Rs.168192crores (26517 US$ million).

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TABLE NO.3 - SECTORS ATTRACTING HIGHEST FDI EQUITY INFLOWS

Amount in Rs.crores(US$ in million)

RANKS	SECTOR	2013-14 (April-march)	2014-15 (April-march)	2015-16 (apri,15-sept,15)	Cumulative inflows ((apri,00-sept,15)	%age to total inflows (in terms of US$)
1	SERVICES SECTOR	13,294 (2,225)	27,369 (4,443)	9,404 (1,464)	222,343 (45,367)	17%
2	CONSTRUCTIONDEVELOPMENT: TOWNSHIPS, HOUSING, BUILT-UP INFRASTRUCTURE	7,508 (1,226)	4,652 (769)	516 (81)	113,726 (24,156)	9%
3	COMPUTER SOFTWARE &HARDWARE	6,896 (1,126)	14,162 (2,296)	19,504 (3,057)	93,337 (18,170)	7%
4	TELECOMMUNICATIONS (radio paging, cellular mobile, basic telephone services)	7,987 (1,307)	17,372 (2,895)	4,238 (659)	88,329 (17,717)	7%
5	AUTOMOBILE INDUSTRY	9,027 (1,517)	16,760 (2,726)	9,318 (1,464)	74,274 (14,002)	5%
6	DRUGS AND PHARMACEUTICALS	7,191 (1,279)	9,052 (1,498)	1,441 (226)	66,563 (13,321)	5%
7	CHEMICALS (OTHER THAN FERTILIZERS)	4,738 (878)	4,658 (763)	2,508 (393)	52,400 (10,823)	4%
8	TRADING	8,191 (1,343)	16,755 (2,728)	14,932 (2,308)	58,524 (10,335)	4%
9	POWER	6,519 (1,066)	4,296 (707)	2,292 (360)	49,243 (9,967)	4%
10	METALLURGICAL INDUSTRIES	3,436 (568)	2,196 (359)	1,623 (253)	42,069 (8,687)	3%

NOTE:

i. services sector includes financial, banking, insurance, non-financial/ business, outsourcing, R&D, courier, technology analysis

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ii. *cumulative sector- wise FDI equity inflows (from april,00- September,15)*

iii. *FDI sectoral data has been revalidated/reconciled in line with RBI, which reflects minor changes in the FDI figure*

Source: fact sheet of RBI

INTERPRETATION: Table 3 shows the favorite and lending sectors for investments in India. It is depicted from the table that service sector is the most favorite sector with highest inflows of 17%. After infrastructure, computer software & hardware and telecommunications are the next favorite sectors with 9%, 7% and 7% respectively. Least FDI inflows are shown in metallurgical industries with an investment of 3% only. On the other hand, Good future prospects for foreign investors also avail in other sectors like drug & pharmaceuticals, automobile industry, chemicals and power sector.

HINDRANCES IN THE WAY AHEAD:

MAKE IN INDIA programme faces various challenges for the proper implementation in the Indian scenario. Such are as follows:

1. The poor Indian infrastructure and the defective logistics facilities make it difficult for the country to achieve an elite status as a manufacturing hub.
2. One of the major problem of start-up companies face are the taxation complexities, Tax registration procedures and so many tax breakages act as restraining factors for the new ventures in India.
3. There are various issues related to caste systems , unorganized sectors , gender inequalities as well as regional imbalances that prevails in the Indian economy
4. Cumbersome procedures and rigid product market regulations are the another major problems
5. India has abundance of natural and real resources, but these are not optimally utilized which causes great distrust in implementing this policy.

SUGGESTIONS FOR FURTHER DEVELOPMENT:

Make in India initiatives have affirmative outlook but it is still it lacks somewhere and there are certain areas on which it has to work on. Following are some of the suggestions stated;

1. Government has started single window service for foreign investors to invest easily
2. The officials of 'Make in India' could be trained to be more liberal but the actual procedure of getting the work done is the big challenge

3. Sometimes in many of the proposals the state government is not cooperative, so proper support and encouragement is needed
4. Small sector units are the backbone of our Indian economy, this programme should initiate in such a way that it must hold something good in favor of the SME's
5. Regional development imbalances are the great cause of concern to the economic development of the country therefore, rural section our country should be focused with great equal importance
6. India is vested with plenty of useful natural resources which are to be exploited at their best.
7. India should motivate research and development which is currently less in India and should give more cushion to innovation.

CONCLUSION

FDI plays an important role in the improving the success ratio of the India economy. No doubt the amount of FDI has gradually been increased over the times in India which ultimately leads to the huge job opportunities; produce good quality products, higher volume of goods and services and various other benefits.It provides enhancement to the infrastructural facilities by raising productivity and technological progress in various areas. To make "Make in India" a successful programme in the long run, immense support and encouragement is required from the State as well as the central Government by providing better environment for attracting the foreign investment through direct as well as indirect methods. Government needs to work to increase FDI caps in sectors with FDI potential and allow more sectors to come under the country's automatic approval route and to decrease the hurdles for investing in India." Make in India" campaign surely makes India, an investment destination and global hub for manufacturing and innovation.

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