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Make in India: a pulsating step towards attracting FDI in India

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Abstract: *After a long gap Indian economy has got a huge boost in manufacturing sector growth as a result of proactive steps taken by the Mr.NarendraModi government in form of Make in India. Through Make in India, he wished to make India a manufacturing hub through economic transformation by eliminating the unnecessary laws and regulations, making bureaucratic processes easier, make government more transparent, responsive and accountable and to take manufacturing growth of 10% on a sustainable basis. Apart from this, the policy has aimed to make India a more attractive place for both domestic and foreign investors thereby Indian economy will get global recognition. For this, there is an urgent need for creating a competitive and a conducive business environment through a well developed infrastructure with the latest technology. The major focus areas of the Make in India policy are to generate employment and skill formation through different policy initiatives like first develop India and then FDI, look east on one side and link west on the other, foster investment through fostering intellectual property rights.*
In this context, this paper will throw light on the effect of Make in India policy on the economic reforms in Indian economy and inflow of Foreign Direct Investment in India.
Key Words: *Make in India, Foreign Direct Investment, Manufacturing growth, economic transformation and intellectual property rights.*

I. Introduction

After a long gap Indian economy has got a huge boost in manufacturing sector growth as a result of proactive steps taken by the Mr.NarendraModi government in form of Make in India.Through Make in India, he wished to make India a manufacturing hub through economic transformation by eliminating the unnecessary laws and regulations, making bureaucratic processes easier, make government more transparent, responsive and accountable and to take manufacturing growth of 10% on a sustainable basis. Apart from this, the policy has aimed to make India a more attractive place for both domestic and foreign investors thereby Indian economy will get global recognition. For this, there is an urgent need for creating a competitive and a conducive business environment through a well developed infrastructure with the latest technology. The major focus areas of the Make in India policy are to generate employment and skill formation through different policy initiatives like first develop India and then FDI, look East on one side and link west on the other, foster investment through fostering intellectual property rights.

II. Review Of Literature

Ray (2012) by using Least Square Method found that there is there is a positive relation between FDI and GDP in India. Through Granger Causality Test it was found that there is a presence of unidirectional causality between economic growth and FDI.CARP (2012) tried to find the importance of FDI flows and host country economic growth in which it was observed that the impact capital flows exert on host country is significant and the main channels through the effects are transmitted are financial markets, host country absorptive capacity, human capital and technological.SapnaHooda (2011) finds that India needs a business environment which is conducive to the needs of business. As foreign investors don't look for fiscal concessions or special incentives but they are more of a mind in having access to a consolidated document that specified official procedures, rules and regulations, clearance, and opportunities in India.Jabir Singh, SumitaChadha and Anapurna Singh, 2012find out Foreign Direct investment flows aresupplementing the scarce domestic investments in developing countries particularly in India. They recommend that India should welcome the inflow of foreign investment because it enables India to achieve the cherished goal like making favorable balance of payment, rapid economic development, removal of poverty, and internal personal disparity in the development and also it is very much convenient and favorable for Indian economyAnsariM.Shamim and Ranga M (2010)reveal that India's volume of FDI has increased largely due to Merger and Acquisitions (M&As) rather than large Greenfields projects. India has failed to evolve as inward FDI manufacturing destination which is the sweetest of all sources of FDI. Instead of long term prospects, Investors are showing their growing confidence in the immediate and medium term prospects of Indian Economy.SumanaChatterjee, (2009)fromthefacts and empirical results evidenced in her study shows that the motive of both inward and outward FDI is changing. "Efficiency seeking" investment is gaining more importance as compared to" market seeking" both for domestic as well as foreign investors.DukhabandhuSahoo, (2004), the major findings of his study at macro level suggests that FDI played a vital role in the economic growth of the country and for major contribution in the capital formation. The global share of the FDI inflow in India is very low, for which the major objectives such as export promotion and capital formation are yet to be fulfilled.ChandanaChakraborty and ParantapBasu, 2002, in their paper have explored the relationship between net FDI flow and economic growth by utilizing the technique of co-integration and error-correction modeling. The variables of the study are FDI, GDP, the unit labor cost (ULC) and the share of import duty in the total tax revenue (IMPDT).The study found that FDI is related positively to GDP and inversely to IMPDT.

Objective of Study

This paper has the following objectives:

1. To study the impact of Make In India Policy on the Flow of FDI in India and
2. To study the resultant effect of Make in India Policy on the industrial production.

III. Methodology

The study is based on secondary data. The required data(from September 2013 to December 2015) have been collected from various sources i.e. research papers, various Bulletins Of Reserve Bank Of India, Publications from Ministry Of Commerce, Govt. Of India.Relevant statistical techniques, especially correlation and regression, have been used in the study along with testing of hypothesis. The question is whether the Indian economy undergoes a structural change after PM. Mr.N.Modi has taken over the charge of the Union Government and especially after the implementation of Make in India Program.

For analyzing the impact of pre and post lunch of make in India, the author has conducted t-test. This test has been taken as the sample size taken for the study, is less than 30. For the purpose of the analysis I have taken the following hypothesis.

Hypothesis:

Hypothesis 1

H_0–There is no significant difference between the FDI of pre and post lunch period of make in India.

H_1 -- There is a significant difference between the FDI of pre and post lunch period of make in India.

Hypothesis 2

H_0– There is no significant different between the IIP of pre and post lunch period of make in India.

H_1 -- There is a significant difference between the FDI of pre and post lunch period of make in India.

Make in India: At a glance

On 25th September,2014the Central Government introduced an international marketing slogan 'Make in India'as a national movementto attract business houses from over the world to invest and manufacture in India. He called for a globally recognized Brand India that would be renowned for "zero deficit, zero effect" or free from manufacturing defects and having no adverse impact on the environment.The campaign has started with a view to create jobs, higher volume and quality production, boosting the national economy, converting India to a self-reliant country and enable the Indian economy to get global recognition. It is a well known fact that the foreign companies not satisfied with India's poor infrastructure, cumbersome land purchasing arrangements, excessive regulations, rigid labour laws and frequent power cuts. Due to poor infrastructural facility, foreign investors are less interested to invest in India. As per the Global Competitiveness Report 2013-14 of World Economic Forum India ranked 85 out of 148 countries for its infrastructure. Therefore, the Government has taken necessary steps in the right direction as building ports, highways, power generation centers and so on to make India a manufacturing hub. The Government also has given emphasis on the framework of industrialization, which include the time bound project clearances through a single outline portal supported by the eight members team dedicated to answering investor quarries within 48 hours and addressing key issues relating to land acquisition, labour laws, infrastructure and skill development to attract business from around the world to invest and manufacture in India.

Therefore, 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 eliminating the unnecessary laws and regulations, making bureaucratic process easier and shorter, and make the Government more transparent, responsive and accountable.

Apart from this, the initiative is also emphasized on the employment generation, empowering secondary and tertiary sector and fully utilize the human resource of India.

As industry contributes significantly to the GDP to the Government earns a lion's share in the form to tax revenue which ultimately required to spend on the welfare schemes, the Government has given much emphasis on the industrial sector which signifies production in India with global quality standards.

Recent Policy measures on FDI

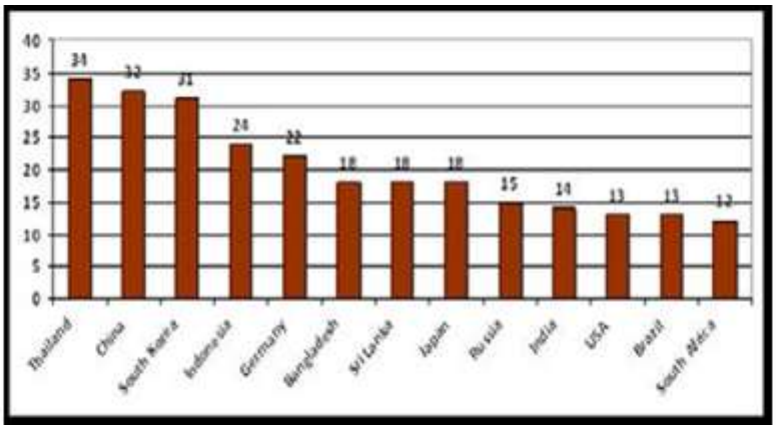
In order to attract more number of FDI, the government has undertaken many changes with regard to FDI cap in different sectors. The government has eased FDI norms in the following 15 major sectors.

- Townships, shopping complexes & business centers – all allow up to 100% FDI under the auto route. Conditions on minimum capitalisation & floor area restrictions have now been removed for the construction development sector.
- India's defence sector now allows consolidated FDI up to 49% under the automatic route. FDI beyond 49% will now be considered by the Foreign Investment Promotion Board. Govt approval route will be required only when FDI results in a change of ownership pattern.
- Private sector banks now allow consolidated FDI up to 74%.
- Up to 100% FDI is now allowed in coffee/rubber/cardamom/palm oil & olive oil plantations via the automatic route.
- 100% FDI is now allowed via the auto route in duty free shops located and operated in the customs bonded areas.
- Manufacturers can now sell their products through wholesale and/or retail, including through e-commerce without Government Approval.
- Foreign Equity caps have now been increased for establishment & operation of satellites, credit information companies, non-scheduled air transport & ground handling services from 74% to 100%.
- 100% FDI allowed in medical devices
- FDI cap increased in insurance & sub-activities from 26% to 49%
- FDI up to 49% has been permitted in the Pension Sector.
- Construction, operation and maintenance of specified activities of Railway sector opened to 100% foreign direct investment under automatic route.
- FDI policy on Construction Development sector has been liberalised by relaxing the norms pertaining to minimum area, minimum capitalisation and repatriation of funds or exit from the project. To encourage investment in affordable housing, projects committing 30 percent of the total project cost for low cost affordable housing have been exempted from minimum area and capitalisation norms.
- Investment by NRIs under Schedule 4 of FEMA (Transfer or Issue of Security by Persons Resident Outside India) Regulations will be deemed to be domestic investment at par with the investment made by residents.
- Composite caps on foreign investments introduced to bring uniformity and simplicity is brought across the sectors in FDI policy.
- 100% FDI allowed in White Label ATM Operations.

STATUS OF MANUFACTURING SECTOR

The manufacturing sector in India has been always a cause of concern for the government and contributes14 percent of GDP .Whereas, in most rapidly developingeconomies, manufacturing sector contributes 25-40% to the GDP such as Thailand’s manufacturing sectorvalue added to GDP is around 34%, China 32%, South Korea 31%, Indonesia 24% and Germany 22%.

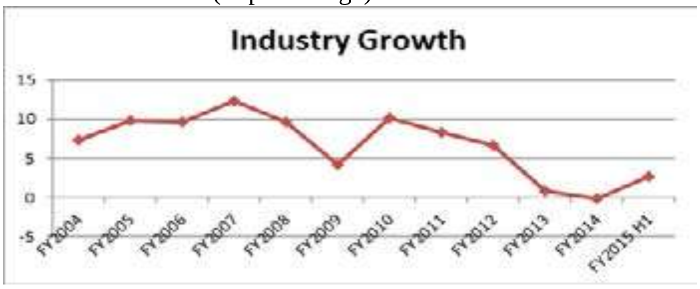
Manufacturing Value added (% of GDP- US$)



Source: PHD Research Bureau, compiled from World Bank and Trading economics,
Note: Data pertains to 2012

From financial Year 2010, the Indian industry has been in the cross road which decelerates considerably. The industrialgrowth fell from 9.2% (average) in 10th five year plan period to 7.2% in the 11th five year plan period and0.35% in the first two years of 12th five year plan (FY13 & FY14). However, the industrial growth picked up from -0.1% in FY2014to an average growth of 2.7% during the firsthalf of 2014-15 with the new government inpower.The growth recovery of the sector started from April-October 2014-15 with 0.7% from 0.1% in the corresponding period of 2013-14 after the new manufacturing policy was started from 2011. The same has been shown in the graph below.

Industry growth from FY2004 to FY2015 (in percentage)



FDI Growth and Make in India

The growth in FDI has been significant after the launch of Make in India initiatives in September 2014, with a 48 percent increase in FDI equity inflows during October 2014 to April 2015 over the corresponding period last year. In 2014-15, country witnessed unprecedented growth of 717 percent, to US $ 40.92 billion of Investment by Foreign Institutional Investors (FIIs). The FDI inflow under the approval route saw a growth of 87% during 2014-15 with inflow of US$ 2.22 billion despite more sectors having been liberalized during this period and with more than 90 percent of FDI being on automatic route. These indicators showcases remarkable pace of approval being accorded by the government and confidence of investors in the resurgent India.

The increased inflow of Foreign Direct Investment (FDI) in India, especially in a climate of contracting worldwide investments indicates the faith that overseas investors have imposed on the country's economy and the reforms initiated by the Government towards ease of doing business. The Make in India initiatives of the Government and its outreach to all investors has made a positive investment climate for India, which is evidenced in the results for the last financial year especially the second half.

The FDI inflow during the financial year 2014-15 was spread across the sectors evidencing the fact of a positive eco-system of investment opportunities which India is now providing- Services Sector (US$ 3.2 billion), Telecommunication (US$2.8 billion), Trading (US$ 2.7 billion), Automobile Industry (US$ 2.5 billion), Computer Software & Hardware (US$ 2.2 billion), Drugs & Pharmaceuticals (US$1.5 billion) and Construction (Infra) activities (US$ 0.75 billion).

The Government amended the FDI policy to further enable a positive investment climate and sync it with the vision and focus areas of the present Government such as affordable housing, smart cities, financial inclusion and reforms in railway infrastructure. The Construction Development Sector was allowed easy exit norms with rationalized area restrictions and due emphasis on affordable housing. The FDI cap in insurance and pension sector has been raised to 49 per cent. 100 per cent FDI has been allowed in railway infrastructure (excluding operations) and also in the medical devices sector. Further the definition of NRI was expanded to include OCI cardholders as well as PIO cardholders. NRIs investment under Schedule 4 of FEMA (Transfer or Issue of Security by Persons Resident Outside India) Regulations will be deemed to be domestic investment made by residents, thereby giving flexibility to NRIs to invest in India.

The Foreign Policy Magazine in its present analysis on a vast number of parameters has rated India as the No.1 destination in the world. Frost & Sullivan, a US based agency has on a number of indicators selected the Make in India initiative as the best initiative to drive manufacturing.

India stands committed to have a FDI policy and regime which is investor friendly and also promotes investment leading to increased manufacturing, job creation and overall economic growth of the country.

IV. Data Analysis

By going through the statistical test (mentioned below) it is found that there has been an increase in the mean of the two periods and variance has also increased to a great extent. This indicates that there has been an increase in the volume of FDI with a high fluctuations. But the t statistics values (both one tail and two tails) are less than the critical values. Thus, we have to accept the null hypothesis and reject the alternative hypothesis. This indicates that in spite of increase in the volume, there is no significance difference in the FDI flow prior to launch of make in India and after it. Similarly, though there is no significant difference between the mean and variance of pre and post make in India period with regard to FII, yet we have to accept the null hypothesis the t statistics values (both one tail and two tails) are less than the critical values.

FDI

t-Test: Two-Sample Assuming Unequal Variances

	Variable 1	Variable 2
Mean	13792.63636	19455.86667
Variance	28770058.25	53276824.84
Observations	11	15
Hypothesized Mean Difference	0	
df	24	
t Stat	-2.280439269	
P(T<=t) one-tail	0.015877579	
t Critical one-tail	1.71088208	
P(T<=t) two-tail	0.031755157	
t Critical two-tail	2.063898562	

IIP

t-Test: Two-Sample Assuming Unequal Variances

	Variable 1	Variable 2
Mean	3.090909091	3.273333333
Variance	3.376909091	9.156380952
Observations	11	15
Hypothesized Mean Difference	0	
df	23	
t Stat	-0.19045796	
P(T<=t) one-tail	0.42531068	
t Critical one-tail	1.713871528	
P(T<=t) two-tail	0.850621361	
t Critical two-tail	2.06865761	

V. Conclusion

It is obvious that a good and conducive business environment always attracts investment from both domestic and abroad. As the make in India is a stepping stone towards a drastic economic reform through ease of doing business, so after make in India introduced, there is huge euphoria in the Indian economy which gets a huge response from both domestic and foreign investors. However, this is too early to say that through make in India strategy the Indian economy will achieve high growth rate in the industrial sector and will attract FDI in a large way. To conclude, this policy is an ambitious and highly praiseworthy step towards sustainable development of Indian Economy.

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