Strategic Importance of ‘Make in India’ Campaign to Empower Indian Economy

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Abstract: The term “Make in India” was recently publicized in India. It is another name of foreign direct investment with special focus on capital formation sector. The “Make in India” Strategy is launched to attract foreign investors to invest almost in all sectors in India to encourage International Economic Integration. International Economic Integration plays an important role in Economic Development of any country. Foreign Direct Investment is one and only major instrument of attracting International Economic Integration in any economy. It serves as a link between investment and saving. Many developing countries like India are facing the deficit of savings. This deficit can be circumvented with the help of Foreign Direct Investment. Foreign investment helps in reducing the defect of BOP. FDI comes handy 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, developing infrastructure, increasing productivity and opening up new employment opportunities. In India, FDI is considered as a developmental tool, which helps in achieving self-reliance in various sectors and in overall development of the economy. After Make in India campaign there is fair increase in the flow of foreign direct investment. This research paper analyzes success of “Make in India” strategy to attract more FDI and its role in empowering the Indian economy.

Key Words: Make in India, Foreign Direct Investment, Foreign indirect investment, Internal Personal Disparity, Portfolio Investment Policy, Balance of Payment

Introduction: ‘Make in India’ strategy can play a significant role in development of Indian economy. Many countries provide many incentives for attracting the foreign direct investment (FDI). Make in India strategy is characterized by greater liberalization of trade and investment regimes, and deregulation and privatization of markets in India. Capital formation is an important for economic growth. While domestic investments add to the capital stock in an economy, FDI plays a complementary role in overall capital formation and in filling the gap between domestic savings and investment. When looked at macro-level, FDI is a non-debt-creating source of additional external finances. At the micro-level, FDI is expected to increase productivity, technology, skills, employment avenues and integration with other sectors and regions of the host economy. India has also made mood to ease out the process for foreigners to invest in India. India is set to host huge FDI under ‘Make in India’ campaign. It is being believed that success of Make in India campaign can turn India into developed economy with rapid pace by providing access to the high end technology that raise efficiency and productivity of the existing production systems and generate new areas of production. Among BRICS nations, if India has to out shine, success of Make in India strategy is a mandate.

Objectives of the Research
1. To analyze the trends of FDI, pre and post period of ‘Make in India’ campaign.
2. To identity the vitality of ‘Make in India’ strategy for economic development.
3. To exhibit the sector-wise analysis of ‘Make in India’ policy.
4. To identity the problems relating to inflow of FDI and to make suitable suggestions for attracting more FDI inflow to India.

Research Methodology
The secondary data was analyzed to find out the impact on figures of FDI reports after launch of ‘Make in India’ campaign. The secondary data was collected from various reports and publication of GOI, journals, magazines, and websites which publish FDI related information, particularly from the Department of Industrial Policy & Promotion, Ministry of Commerce and Industry, Reserve bank of India etc. The study is based on the time period from 2014-2016.

Data analysis and interpretation
The Annual Growth Rate (AGR) and Compounded Annual Growth Rate (CAGR) are used to analyze the FDI inflows during the Pre launch period and Post launch period of Make in India campaign to find out the magnitude of FDI.
inflows. In addition, Auto-regressive Integrated Moving Average (ARIMA) model is used to forecast FDI inflows.

**Specialties of Make in India campaign to attract more FDI**
- Liberal Policy framework for FDI.
- Easy rules regarding entry & operations.
- Prescribed standards of treatment of foreign investors.
- More International agreements on FDI.
- Privatization Policy.
- Favorable Tax Policy.
- Access to almost all sectors.
- Availability Low-cost unskilled labor.
- Availability of Skilled labor.
- Best post-investment services.

**Sector wise influence of Make in India strategy**

Only quantum aspect of FDI is not being considered much important but where this amount is invested matters a lot. FDI inflow becomes more fruitful and brings growth to the economy if it is coming in the sectors like infrastructure, heavy industry, basic capital goods, agriculture etc. FDI inflow in the more profit making non-priority industries such as luxuries, semi-luxuries industries i.e, fashion, cosmetics, non-basic capital goods such as A.C, T.V, Refrigerator etc. will increase consumption rate only and will not help in capital formation of Indian economy. Till 2013 more FDI has gone to non-priority sector as compare to capital formation sector. Keeping this situation in view GOI has framed Make in India strategy to ensure more and more FDI especially in capital formation sector. This strategy has brought some ease to foreign investors as many rules and regulations have been liberalized to a certain extent.

It is because of this 'Make in India' campaign only that India has ranked 3rd most attractive Foreign Direct Investment (FDI) destination, according to a report by United Nations Conference for Trade and Development (UNCTAD). Since the last two and a half years, the government has brought about major FDI reforms in the significant sectors of the economy under the umbrella of ‘Make in India’. With key policy changes and improvement on ease of doing business, India became the most open economy in the world for FDI.

The liberalized FDI norms have helped to continue the growth of the FDI. The FDI equity inflows in the first two quarters of Financial Year (FY) 2016-17 were 30 percent higher than those recorded in 2015-16.

**Automobile Sector**

The Indian auto industry contributes 7.1 percent to the country's GDP and is being counted as of the largest in the world. Indian auto industry is led by two wheeler segment with 81 percent. Potentiality of rural market for this industry has also helped it grow rapidly.

As a result of 'Make in India' policy, exports of Commercial Vehicles registered a good growth. In addition, several initiatives by the Government of India and the major automobile players in the Indian market are expected to make India a leader in the Two Wheeler and Four Wheeler market in the world by 2020. 'Make in India' policy has encouraged foreign automobile companies to manufacture and invest in India. Here are the some outcomes which itself speaks about the success of 'Make in India' campaign:

- Ford plans to manufacture in India two families of engines by 2017, 'a 2.2' liter diesel engine code named Panther, and 'a 1.2' liter petrol engine code named Dragon, which are expected to power 270,000 Ford vehicles globally.
- General Motors plans to invest US$ 1 billion in India by 2020, main part of this investment is expected to come for extension of Talegaon plant in Maharashtra from 130,000 units a year to 220,000 by 2025.
- Japanese two-wheeler manufacturer Honda Motorcycle and Scooter India also showed interest in extension of business in India by opening its fourth and world’s largest scooter plant in Gujarat, set up to initially produce 600,000 scooters per annum to be scaled up to 1.2 million scooters per annum by mid-2016.

**IT- BPM AND ITES**

India is about to become the Silicon Valley of the developing world with more than 4,200 start-ups, talented human resource treasure and digital vision. Make in India has also encouraged entrepreneurs to invest in BPM and ITES because of its high profitability and cost effectiveness. 'Make in India' policy reflected on this industry as:

- The sector is also expected to triple its current annual revenue by FY 2025, as per NASSCOM.
- India’s IT-BPM industry recorded revenues of USD 143 Billion in FY2016 clocking approximately 8.5 percent year-on-year growth
- Exports in FY2016 stood at USD 108 Billion. At 10.3 percent year-on-year growth, exports in FY 2016 raised to USD 108 billion.
- Huge FDI inflow in computer software & hardware make it the third ranked sector in terms of FDI inflow in India.
As a top sourcing destination India raised its share to 56 percent in FY2015.

Tourism and Hospitality Infrastructure

Construction of hotels and resorts, recreational facilities and city and regional level infrastructure has been opened for 100 percent FDI through automatic route. Further other restrictions in this sector like 3 year lock-in period, minimum capitalization and area restriction have been removed. ‘Make in India’ campaign has fetched exponential numbers to this sector. The Tourism & Hospitality sector accounts for 3.3 percent share of total FDI equity inflows. FDI equity inflow grew by 60 percent in FY 2014-15 over FY 2013-14, it again grew by 72 percent over the previous year during FY 2015-16.

Telecommunication sector

Post ‘Make in India’ campaign the country’s telecommunication sector is witnessing rapid growth and is currently the world’s second largest market in terms of subscribers, with more than 1.06 billion connections. The huge growth of the sector has created demand for telecommunication allied hardware including mobile phones of worth USD 20 billion and is expected to cross USD 30 billion by 2020. After more than USD 20 billion investment in Reliance Jio, Reliance Industries has changed the face of Telecommunication sector. It has created exponential demand for 4G compatible hardware in this sector. Which in turn has turned India as star market for mobile and allied hardware manufacturers to invest in.

Mobile phone industry alone contributed 6.5 percent to India’s GDP i.e. around USD 140 billion in 2015. ‘Make in India’ made investing easy to this sector. As a result more than 38 new Mobile manufacturing units with over 20 million units per month have been set up since September 2015. These units have created 40,000 jobs. Surprisingly, total number of mobile phones manufactured in 2015-16 grew by 90 percent to 110 million as compare to 60 million in 2014-15.

Aviation Sector

Indian aviation sector has reached to the size of around USD 16 billion and with this size India aviation market has achieved 9th rank in size globally. With rising per capita and increasing middle class population Indian aviation sector carries huge potential for more investments.

‘Make in India’ campaign bounced aviation industry more up in the sky with approximately 20.3 percent in FY 15 over FY 14, as per statistics shared by IATA (International Air Transport Association). Furthermore, India is being seen as world’s 3rd largest aviation market by 2020.

In 2015-16 India has recorded 27.4 percent growth in aviation as compare to 2014-15 taking the total passenger throughput at 184 million, this exceptional growth has made India the fastest-growing aviation market in the world.

India is being seen with 370 million passenger throughput in 2020, among these 370 million 80 percent is assumed to be domestic traffic only.

The Indian air transport (including air freight) attracted FDI of USD 931 million between April 2000 and March 2016, according to data released by the Department of Industrial Policy and Promotion (DIPP).

Mining sector

‘Make in India’ campaign turned investors optimistic about country’s mining industry, therefore FDI equity inflows in the sector increased by 1606 percent to USD 1.2 billion during Apr 2014 - Mar 2016 compared to USD 70.62 million during Apr 2012 - Mar 2014. Government of India declared some fiscal incentives to this sector which in turn increased investors speculation to this sector. some of these fiscal incentives are:

- Export duty on Iron ore (fines and lumps below 58 percent Fe grade) has been reduced from 10 percent and 30 percent respectively to 0 percent (Budget 2016-17).
- Export duty on Bauxite(natural) reduced from 20 percent to 15 percent and on Chromium ores & concentrates from 30 percent to 0 percent (Budget 2016-17).
- Export duty on Iron ore pellets has been reduced to zero from 5 percent (January, 2016).
- Export duty on Iron ore of NMDC origin by MMTC Limited to Japan and South Korea has been reduced from 30 percent to 10 percent, effective till March 31,2018.
- Post Make in India policy private sector participation has enhanced in this sector that has aided in sector’s growth. Hence the mineral production witnessed a 9 percent growth in FY 2015-16.

Power sector

With installed power capacity 307.28 GW in ending 2016, India became 5th largest installed capacity in the world. To ensure 24*7 electricity to residential, commercial and agricultural set ups, the Government targets to generate two trillion units (kilowatt hours) of energy by 2019. The Indian power sector has an investment potential of USD 225 billion in the next 5 years and provides immense opportunities for domestic and foreign investors. Total 50471.41 MW power generation
capacity has been added since April 2014 till November 2016.

To speed up infrastructure development of power sector of the country, GOI has undertaken foreign collaboration. Five power projects are being built in the country with foreign project developers in HP, Odisha, Andhra Pradesh and Maharashtra.

Electronics and IT sector

IT and electronics manufacturing sector has been boosted by initiative ‘Make in India’ which created favorable policies to enable an investor friendly environment. Due to the high demand for high-end products in the domestic market, the Indian electronics sector is projected to grow at a CAGR of 24 percent from USD 70 billion in 2014 to USD 400 billion by 2020. With this growth India is expected achieve much awaited target of ‘Net Zero Imports’ by 2020 in this sector. Around 21 billion of electronics products were manufactured endogenously only in year 2014-15. Make in India campaign also helped FDI Inflows in Electronics and Computer Software & Hardware sector grew by 155.5 percent in FY 2015-16.

Textile and apparel sector

Textile and apparel sector is the second largest employment provider in the country employing nearly 51 million people directly and 68 million people indirectly in 2015-16. 100 percent FDI is allowed under the automatic route in this sector. This sector also recorded the growth of 16 percent in FY 2015-16 over FY 2013-14. From second quarter of calendar year 2014 to second quarter of 2016 FDI equity inflows in the Textiles sector summed up to USD 427.55 million.

Findings of the Study

- Post ‘Make in India’ campaign has shown brilliant results to attract foreign investors to the Indian land. What hundreds of efforts and policies together couldn't do in FDI chapter of India, ‘Make in India’ campaign did and is doing it single handed.
- Some of the countries have shown much interest in Indian market, these are Mauritius, Singapore, Japan, Netherlands, USA and UK.
- The foreign investment increased in both term i.e. FDI and FIIs.
- The sectors like financing, Insurance, Real Estate and Business services, Research and development, Electronics, mining, tourism and construction proved to be much attractive sectors for foreign investors.
- Automobile Sector has attracted big giants like Honda Motorcycle and Scooter India, General Motors, Ford etc.
- Make in India has made IT- BPM AND ITES unstoppable. This sector has turned eyes of all companies to India whose motive is to bring cost effectiveness in their operations with no negotiations in quality.
- FDI equity inflow grew by 60 percent in FY 2014-15 over FY 2013-14, it again grew by 72 percent over the previous year during FY 2015-16 in Tourism and Hospitality sector. This has boosted this sector. If this kind of interest of foreign investors prevails in future also, days are not far when India will be one of the most attractive tourist destination in the world.
- ‘Make in India’ policy has shown mind blowing results in mobile manufacturing sector, in less than one year from September 2015 to August 2016, 36 mobile manufacturing units has been started with cumulative capacity of 20 million units per month.
- ‘Make in India’ campaign has also turned investors very optimistic about country’s mining industry, therefore FDI equity inflows in the sector increased by 1606 percent.
- In 2015-16 India has recorded 27.4 percent growth in aviation and Electronics and IT sector has grown by 155 percent.
- There are many other sectors in India which have shown very good growth post Make in India policy. If ‘Make in India’ strategy performs in the future also, country's goal to become world's powerful economy would be an easy inning.

Conclusion and Recommendation

‘Make in India’ has helped the Indian economy grow and the government continues to encourage more investments by offering certain fiscal incentives to the investors. ‘Make in India’ strategy have power of a lion to boost the Indian economy as it has proved it to an extent. Huge growth in FDI in some sectors after the launch of this campaign speaks about its success itself. However, some sectors are even today neglected by foreign investors. These sectors need much attention of GOI for balanced development of the economy. India is expected to grow even faster with certain worth admiring initiatives such as GST bill, 7th pay commission, etc. These initiatives will increase demand for products in certain industries which in turn will attract FDI to Indian economy. Recent demonetization step will take India decades ahead to earn foreign investors trust in Indian market. India has tremendous potential for absorbing greater flow of FDI. India should be prepared to host any limit of FDI in near future. Transport connectivity, skilled human resource, energy resources etc. are the areas which are to be taken up to the international standard level to convince more manufacturers to India. Internal peace and political stability will also play good role to attract more investments. India should also
frame some more campaigns like ‘Make in India’ to boost FDI. We should welcome inflow of foreign investment in such way that it should be convenient and favorable for Indian economy and enable us to achieve our cherished goal like rapid economic development, removal of poverty, internal personal disparity in the development and making our Balance of Payment favorable. To conclude, Make in India is one among such strategies which has power to ‘Make India’ a developed economy with exponential speed.

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