IMPACT OF FOREIGN DIRECT INVESTMENT ON MANUFACTURING INDUSTRY IN INDIA

Article Particulars: Received: 17.04.2018 Accepted: 21.04.2018 Published: 28.04.2018

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Abstract

The economic development of a country is based on its industries revolution with more production and promotion. Foreign investment is considered as an important factor especially for the manufacturing sector of the developing countries as foreign investors tend to bring with it the capital, technology and skills needed for industrial development. Until 1991, India did not have enough savings to meet the capital requirements. Moreover, the licensing agreements as well as capital goods imports also did not give it the requisite industrial technology. But with the inflow of foreign funds after 1991 certain gaps with regard to capital, technology for industrial development have been fulfilled. This paper seeks to present the trend and pattern FDI inflow and also its impact on manufacturing sector due to the liberalization of economic policy as well as the policy framed by the Honourable Prime Minister Mr. Narendra Damodar Das Modi's dream Project of "Make in India" and Smart Cities" etc.

Keywords*: FDI, GDP, Manufacturing Sector, Liberalization, Make in India and Smart Cities*

Introduction

India is an attractive hub for foreign investments in the manufacturing sector. Several mobile phones, luxury and automobile brands, among others, have set up or are looking to establish their manufacturing bases in the country. With impetus on developing industrial corridors and smart cities, the government plans enormous development of the nation. The corridors will assist in integrating, monitoring and developing a friendly environment for the industrial development and also promote advance practices in manufacturing.

According to the "2013 Global Manufacturing Competitiveness Index (GMCI)" by Deloitte Touche Tohmatsu and the US Council on Competitiveness, India ranked fourth in the world regarding manufacturing capability. Over the last two decades, India opens its market, and slowly it becomes second in the world regarding financial attractiveness. The Prime Minister Mr. Narendra Modi has launched the 'Make in India' campaign to place India on the world map as a manufacturing hub and recognize Indian economy worldwide as a preferred destination for foreign direct investment. FDI brings a huge capital, technological knowledge, employment opportunities to the host country. It also boosts manufacturing industry by aiding setting up of various manufacturing units in different parts of India.

For any country to generate adequate employment, its manufacturing sector's contribution to Gross Domestic Product (GDP) has to improve at a faster rate. But this is not the case in Indian manufacturing sector because of its low contribution (16 percent) to GDP. Research says the manufacturing sector in India has the potential to reach US$ 1 trillion by 2025 and contribute approximately 25 percent to India's GDP. So, it is expected to generate approximately 90 million jobs by 2025. Currently, India has a contribution of approximately 2.2 percent of world's total manufacturing output, which is at par with developed economies like U.K. and France. Against this background, the present paper tries to focus on the trend and pattern of FDI inflow during 2000-01 to 2016-17 and also its impact on manufacturing growth in Indian industries for enhancing the economic growth as well as the domestic sector. In this research paper, the researchers have

utilized secondary data collected from various published and unpublished sources like books, research papers, journals, magazines, websites, etc.

Literature Review

In the literature review section, the researchers try to examine the trends of FDI inflows into Indian manufacturing sectors, though enters to the Indian market. There are hardly few studies which look into the manufacturing sector. So, the researcher attempts to examine the flow of FDI into the manufacturing sector. In their research work the researchers go for the empirical study to collect the data in order to complete the proposed article, as they've studied & focused about the previous research experimental findings like Mohan (2014) in his research paper reveals in his study that trade, GDP, Reserves, Exchange rate are the main determinant of FDI inflows to the country. Finally, his study observed that FDI is a significant factor influencing the economic growth in India. It also contributes to the GDP and foreign exchange reserves of the country.

Pais (2014) in his paper has shown current challenges and improvement areas. As well as he concludes FDI has had a positive impact on Indian Economy. It also supplements domestic capital, as well as technology and skills of existing companies.

Mohanty (2013) in his research paper outlines India's FDI policies and highlights challenges for foreign investors, recent policy developments, and the potential for foreign firms. The researcher suggested various policy measures like different ministries to work together, and meetings are now frequently held between ministries to sort out differences for quick project clearance, improving coordination between the states and the central government for project clearance is imperative, To make Special Economic Zones (SEZs) more attractive, proper planning and design should include local level solutions for land acquisition and infrastructure connectivity to SEZs, along with sector-specific policies to attract FDI.

Pradeep (2013) in his thesis found out that a high positive co-efficient of correlation is found between FDI approvals and actual inflows. RBI's automatic route is found contributing the maximum share of 45.7 percent to the total FDI inflows followed with a gap by government's FIPB route (25.30 percent) and other route (29.00 percent).

Hooda (2013) in their research paper found out that manufacturing FDI in India significantly negatively affected by tariffs, import-intensity, R&D intensity, whereas it is positively impacted by market power. FDI inflows have been higher in that sector where market imperfections give an opportunity to exploit ownership advantages of FDI making companies to increase their margins and hence profits. The negative relationship between tariffs and FDI shows that FDI has been efficiency seeking.

A Brief Overview of Manufacturing Sector

Manufacturing has emerged as one of the high growth sectors in India. Prime Minister of India, Mr. Narendra Modi, had launched the 'Make in India' program to place India on the world map as a manufacturing hub and give global recognition to the Indian economy. India is expected to become the fifth largest manufacturing country in the world by the end of the year 2020.

Market Size

The Gross Value Added (GVA) at basic constant (2011-12) prices from the manufacturing sector in India grew 7.9 percent year-on-year in 2016-17, as per the first revised estimates of annual national income published by the Government of India. Under the Make in India initiative, the Government of India aims to increase the share of the manufacturing sector to the gross domestic product (GDP) to 25 percent by 2022, from 16 percent, and to create 100 million new jobs by 2022. Business conditions in the Indian manufacturing sector continue to remain positive.

Investments

With the help of Make in India drive, India is on the path of becoming the hub for hi-tech manufacturing as global giants such as GE, Siemens, HTC, Toshiba, and Boeing have either set up or are in the process of setting up manufacturing plants in India, attracted by India's market of more than a billion consumers and increasing purchasing power. Cumulative FDI in India's manufacturing sector reached US$ 72.31 billion during April 2000-September 2017.

India has become one of the most attractive destinations for investments in the manufacturing sector. Some of the investments and developments in this sector in the recent past are:

- Mahindra and Mahindra are planning to start operating a fleet of electric cabs and supplying parts to Electric Vehicle (EV) manufacturers.
- Grasim Industries has received clearance for expansion of its plant at Vilayat. The expansion will entail an investment of Rs 2,560 crore (US$ 396.8 million)
- Over 350 mobile charger factories are expected to be set up in India by 2025, on the back of the government's push to encourage production of battery chargers. Setting up of these factories is expected to lead to the production of 1.46 billion chargers and generation of 0.8 million jobs.
- The Government of India is planning to invite bids for setting up of 20 Gigawatts (GW) of solar power capacity with the objective of boosting domestic manufacturing of solar power equipment.
- JSW Energy has signed a memorandum of understanding (MoU) with the Government of Gujarat, for setting up an electric vehicle (EV) manufacturing unit in Gujarat at an estimated cost of Rs 4,000 crore (US$ 608.88 million).
- With an aim to increase its presence in India, Denmark-based heating ventilation and air-conditioning (HVAC) giant, Danfoss, is planning to take its manufacturing localization to 50 percent as well as double its supplier base in India by 2020.

Government Initiatives

The Government of India has taken several steps to promote a healthy environment for the growth of manufacturing sector in the country. Some of the notable initiatives and developments are:

- In Union Budget 2018-19, the Government of India reduced the income tax rate to 25 percent for all companies having a turnover of up to Rs 250 crore (US$ 38.75 million).
- Under the Mid-Term Review of Foreign Trade Policy (2015-20), the Government of India increased export incentives available to labour intensive MSME sectors by 2 percent.
- The Ministry of Electronics and Information Technology is in the process of formulation of a new electronics manufacturing policy. The aim is to create an ecosystem of manufacturing in the country, enable India to become a significant global player in some of these categories.
- Ministry of Home Affairs liberalized Arms Rules to boost 'Make in India' manufacturing policy of the government. It is expected to encourage investment in the manufacturing of arms and ammunition and weapon systems and promote employment generation.
- The Government of India has launched a phased manufacturing programme (PMP) aimed at adding more smart phone components under the Make in India initiative thereby giving a push to the domestic manufacturing of mobile handsets.
- The Government of India is in talks with stakeholders to further ease FDI in defence under the automatic route to 51 percent from the current 49 percent, to give a boost to the Make in India initiative and to generate employment.
- The Ministry of Defence approved the "Strategic Partnership" model which will enable private companies to tie up with foreign players for manufacturing submarines, fighter jets, helicopters and armoured vehicles.

Trend and Patterns of FDI

The total FDI equity inflow in India from various sectors was around USD 2,339 million in 2000-01 which has raised to US$ 43,478 million in 2016-17.There was a decline in growth of total FDI equity inflow of -26 percent during 2012-13 over 2011-12 in India. There was a growth of total FDI equity inflow of 5 percent during 2013-14 over 2012-13 in India. There was a growth of total FDI equity inflow of 25 percent during 2014-15 over 2013-14 in India. There was a growth of total FDI equity inflow of 23 percent during 2015-16 over 2014-15 in India. There was a growth of total FDI equity inflow of 8 percent during 2016-17 over 2015-16 in India (Table 1).

FDI and Manufacturing Sector

In 2009, there was a decrease in FDI inflows to manufacturing sector following the global financial crisis of 2008. Due to mergers and acquisitions, only few industries like electrical and electronic equipment received higher investments during 2009. Though, for period after 2000 as a whole, there has been an increase in FDI inflows to manufacturing sector despite economic crisis of 2008-2010. However, there was a sharp decline in the flow of investments in manufacturing after 2012. The institutional factors that reduce investor confidence could be the reason of moderation.

Road Ahead

India is an attractive hub for foreign investments in the manufacturing sector. Several mobile phones, luxury and automobile brands, among others, have set up or are looking to establish their manufacturing bases in the country.

The manufacturing sector of India has the potential to reach US$ 1 trillion by 2025 and India is expected to rank amongst the top three growth economies and manufacturing destination of the world by the year 2020. The implementation of the Goods and Services Tax (GST) will make India a common market with a GDP of US$ 2.5 trillion along with a population of 1.32 billion people, which will be a big draw for investors.

With impetus on developing industrial corridors and smart cities, the government aims to ensure holistic development of the nation. The corridors would further assist in integrating, monitoring and developing a conducive environment for the industrial development and will promote advance practices in manufacturing.

Table 1 Reported FDI Inflows into India and their Main Component (As Per International Best Practices) *(US $ Million)*

Financial Year (April -March)	Main Components					%age growth over previous years (in US $ terms)
	Equity Inflows (FIPB /SIA, Automatic & Acquisition Routes)	The Equity capital of unincorporated bodies	Reinvested earnings	Other capital	Total FDI Inflows	
(1)	(2)	(3)	(4)	(5)	(6)	(7)
2000-01	2,339	61	1,350	279	4,029	-
2001-02	3,904	191	1,645	390	6,130	52
2002-03	2,574	190	1,833	438	5,035	-18
2003-04	2,197	32	1,460	633	4,322	14
2004-05	3,250	528	1,904	369	6,051	40
2005-06	5,540	435	2,760	226	8,961	48
2006-07	15,585	896	5,828	517	22,826	155
2007-08	24,573	2,291	7,679	292	34,843	53
2008-09	31,364	702	9,030	777	41,873	20
2009-10	25,606	1,540	8,668	1,931	37,745	-10
2010-11	21,376	874	11,939	658	34,847	-08
2011-12	34,833	1,022	8,206	2,495	46,556	34

2012-13	21,825	1,059	9,880	1,534	34,298	-26
2013-14	24,299	975	8,978	1,794	36,046	5
2014-15	30,933	978	9,988	3,249	45,148	25
2015-16	40,001	1,111	10,413	4,034	55,559	23
2016-17	43,478	1,227	12,176	3,201	60,082	8
Cumulative Total (from April, 2000 to March, 2017)	**333,677**	**14,112**	**113,737**	**22,825**	**484,351**	**-**

Source: Based on DIPP, "Fact Sheet on Foreign Direct Investment (FDI)", March 2017

Fig. 1: Trend of Growth Rate of FDI Inflows during 2001-02 to 2016-17

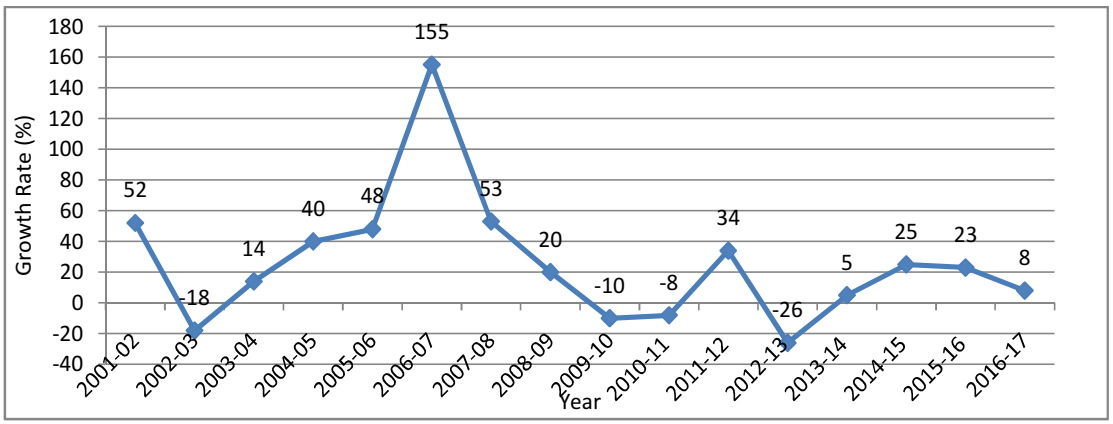

Table 2 Top 10 Manufacturing Sectors Attracting Highest FDI Equity Inflows *(US $ Million)*

Sector	Cumulative Total (from April 2000 to March 2017)	% age to total Inflows
Automobile Industry	16,673.9	5.02
Drugs & Pharmaceuticals	14,706.8	4.43
Chemicals (other than fertilizers)	13,293.1	4.00
Metallurgical Industries	10,330.5	3.11
Food Processing Industries	7,542.9	2.27
Electrical Equipment	6,567.4	1.98
Cement and Gypsum Products	5,239.2	1.58
Industrial Machinery	4,393.8	1.32
Fermentation Industries	2,487.8	0.75
Textiles (Including Dyed, Printed)	2,471.4	0.74

Source: Based on DIPP, "Fact Sheet on Foreign Direct Investment (FDI)," March 2017

Conclusion

FDI occurs when a business invests in a foreign country by either acquiring a foreign business that it controls or starting a business in the foreign country. Even though global economies are suffering from a financial crisis and other economic hurdles, India still stands as a global investment destination. Keeping in view of current requirements and benefits of the nation, the Government of India comes up with new policies from time to time. The Government should design the FDI policy such a way where FDI inflow can be utilized as means of enhancing domestic production, savings, and exports through the equitable distribution among states by providing much freedom so that they can attract FDI inflows at their level.

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