Determinants of foreign direct investment and its impact on economic growth

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Abstract:

India is one of the fastest growing economies of the world. India is emerging in the field manufacturing sector. At present, industrial sector contributes about 16% to India's GDP which is expected to be increase to 25% in the next five years. Keeping in view this idea our beloved Prime Minister Shri Narendra Modi has launched "Make in India' on 25th September 2014 by encouraging to industrialists to manufacture their products in India. This ambitious campaign aims at converting our country into a global manufacturing hub. But the main drawback of our country is capital deficiency. The success of 'Make in India' programme depend upon the adequate inflow of FDI. Therefore, liberal FDI policy in the entire manufacturing sector is the need of the hour. In August 2014 the cabinet of India allowed 49% Foreign Direct Investment (FDI) in the defense sector and 100% in railways.

Key words: Manufacturing factor, make in India, GDP, Industry, Production, Encourage, Infrastructure, Campaign.

Introduction:

Make in India is a novel idea launched by the present NDA Government headed by Shri Narendra Modi on 25th September 2014 with an intension to give the Indian economy global recognition by lifting manufacturing sector and transform India into a global manufacturing hub. The mission statement while launching the make in India concept was "Promoting foreign investment in India in a focused, comprehensive and structural manner while acting as a first entrance point to provide quality input and support services to the prospective foreign investors". It was stated as the mission to attract FDI in Indian economy "in order to accelerate the economic growth. To quote the Managing Director of IMF Christine Lagarde in the cloudy global horizon India is a bright spot". This statement shows potentiality of our market for investments. Mr. Ratan Tata, the Chairman, Emirates of Tata Sons is of the opinion that "there is a great deal of hope in the inspirational leadership and we are all optimistic that the country will move forward. There is a positive sentiment of the people, a belief in new India". His statement reveals the trust of Indian people and Indian society at large in the present Union Government. Therefore, the government of India is planning to tap the best human resources available in the nation and to harness the same for the rapid economic growth. Many areas in India are still ignored or neglected in the growth process due to lack of capital. The recent liberal FDI policy of India would be an edifice for the success of 'Make in India

Campaign'. With this back drop the researcher is interested to study the comparative analysis of FDI inflow into India before and after the enunciation of the 'Make in India' programme.

Objectives of the Study:

The present study aims at tracing the following objectives:

1. To analyze the need of FDI for make in India campaign.
2. To compare FDI inflow into India before and after the enunciation of make in India campaign.
3. To estimate the requirement of FDI for the success of make in India programme.
4. To study country wise and sector wise FDI flow into India.
5. To find out the effect of FDI on economic development of India after the introduction of 'Make in India Campaign'.

Methodology:

The study is purely based on secondary data. Information and data related to FDI are collected from the various published sources like Books, Magazines, Journals, Research Articles and different websites. The facts and figures collected are analyzed in the form of tables and graphs to derive the conclusion. Statistical tools like trend projection and least square methods are also used to draw the inferences.

Significance of the Study:

The challenging initiative of 'Make in India' of the present Union Government is to change the very phase of growth rate of our economy. About two decades of economic liberalization, huge young work force, unsatisfied middle class, increasing internal demand and expected high rate of returns on investment etc. make India an incredible investment destination. FDI flow in the project of make in India stimulates the economic growth rate by strengthening the industrial base. The conducive environment for the investors creates huge employment opportunities. It enables exchange of knowledge, new skill and resource transfer among the different countries. The equipment and facilities provided by the investors under 'Make in India' scheme can increase the productivity of the workforce in our economy.

Review of Literature:

- Dr. V. K. Ramana – the article entitles "Make in India Illusion or Possible Reality Project?" (2015) has studied some positive aspect of make in India along with some criticisms. The study also covers some major challenges to be faced in the campaign.
- Seema Sangwan - the article titled with "Make in India realism: Role of FDI" has studied the challenges in FDI flow after introduction of make in India. The study reveals that there is positive correlation between industrial product or and FDI flows.

- S. Soundhariya (2015) in the article titled with “Make in India – Scheme for Transforming India” explained about Opportunities, Challenges and Need with some examples investors on make in India campaign. The findings of the study are that make in India campaign surely makes India an attractive spot of investment and global hub for manufacturing.
- Ms. Rosy (2016) in her article “Make in India Prospects and Challenges” has analyzed the sector wise effects of make in India policy with the major limitations.
- Dr. Rajeshwari Shetter (2017) in her research article “Impact of Make in India Campaign: A Global Perspective” has examined area wise, year wise inflow of FDI. The major findings of the study is that India will bring drastic changes in the core sector like automobiles, aviation, biotechnology, defence, media, thermal power, etc.

The Major Sectors Allowed in Make in India Programme:

The focus of make in India campaign is on job creation and skill development in the selected 25 core sector industries.

- Automobiles
- Biotechnology
- Pharmaceuticals
- Textile & Garments
- Automobile Components
- Chemicals
- Electrical
- IT & Business process Manufacturing (BPM)
- Oil & Gas
- Machinery
- Roads & Railways
- Thermal Power
- Aviation
- Food Processing
- Media and Entertainment
- Defense Manufacturing
- Renewable Energy
- Ports
- Electronics
- Construction
- Leather
- Entertainment
- Space
- Tourism
- Mining

Recent Investment Proposal under Make in India:

- In January 2015, the Spice Group said that it would start a mobile phone manufacturing unit in U.P. with an investment of Rs. 500 crore.
- In January 2015, Hyun Chil Hong, the President and CEO of Samsung – South West Asia met with Kalraj Mishra, the union minister for MSME to discuss a joint initiative under which ten ‘MSME-Samsung Technical Schools’ will be established in India.
- In February 2015, Hitachi Committed to the initiative of increasing its employees in India from 10,000 to 13,000 and tries to increase its revenue from ¥ 100 billion to ¥210 billion.
- In February 2015, Huawei opened a New Research & Development (R&D) campus in Bangalore and invested $ 170 million to establish R & D centre.

- In April 2015, Airbus Company said that it will manufacture its products in India and invested 2 billion US dollars.
- In February 2015, Marine Products Export Development Authority invested in supplying Shrimp eggs to Shrimp farming in India under the initiatives.
- In May 2015 TATA JLR (Jaguar Land Rover) announced that it will move its production of Land Rover Defender to its Pune facility in India.

Table 1: Year wise FDI inflow (in US $ billion)

Financial Year	Total FDI Inflow (in US $ billion)	Growth (%)
2012-13	34.30	--
2013-14	36.05	5.10
2014-15	45.15	25.24
2015-16	55.46	22.83

Source: RBI Annual Report

This table reveals increasing trend in there total FDI flow and the yearly over the years, more particularly after the starting of Make in India Campaign.

Table 2: Highest FDI inflows in Top 5 sectors (April 2015 – March 2016)

S.L	Sector	Amount in Million US Dollars	Growth (%)
1	Service Sector	6889	55.05
2	Computer Software & Hardware	5904	157.14
3	Trading	3845	40.95
4	Automobile	2527	-7.3
5	Chemicals	1470	92.66

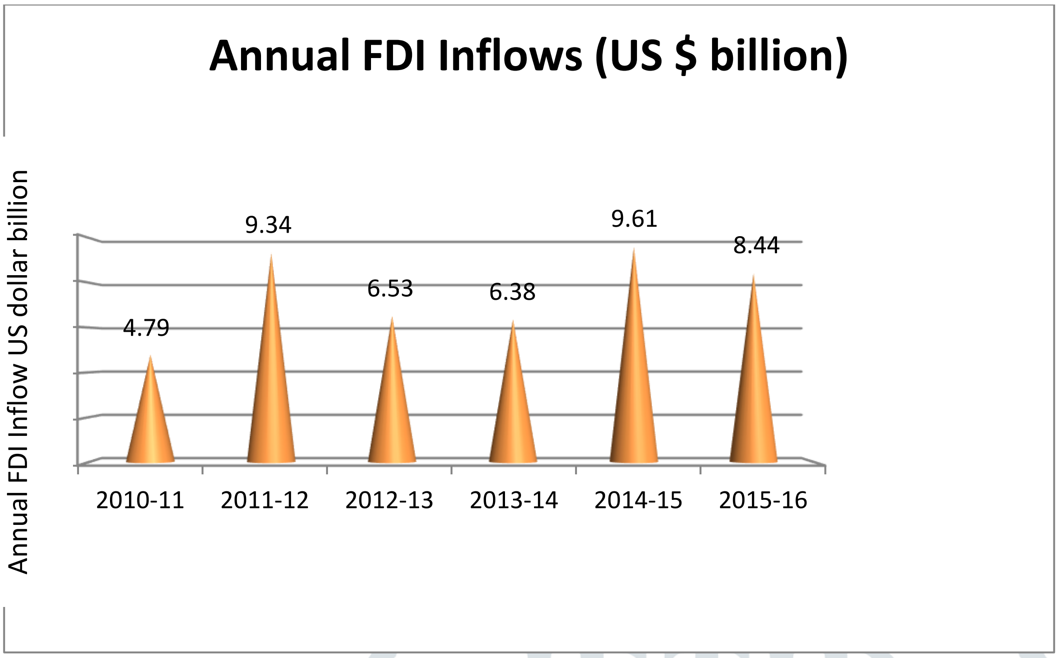
Source: RBI Annual Report

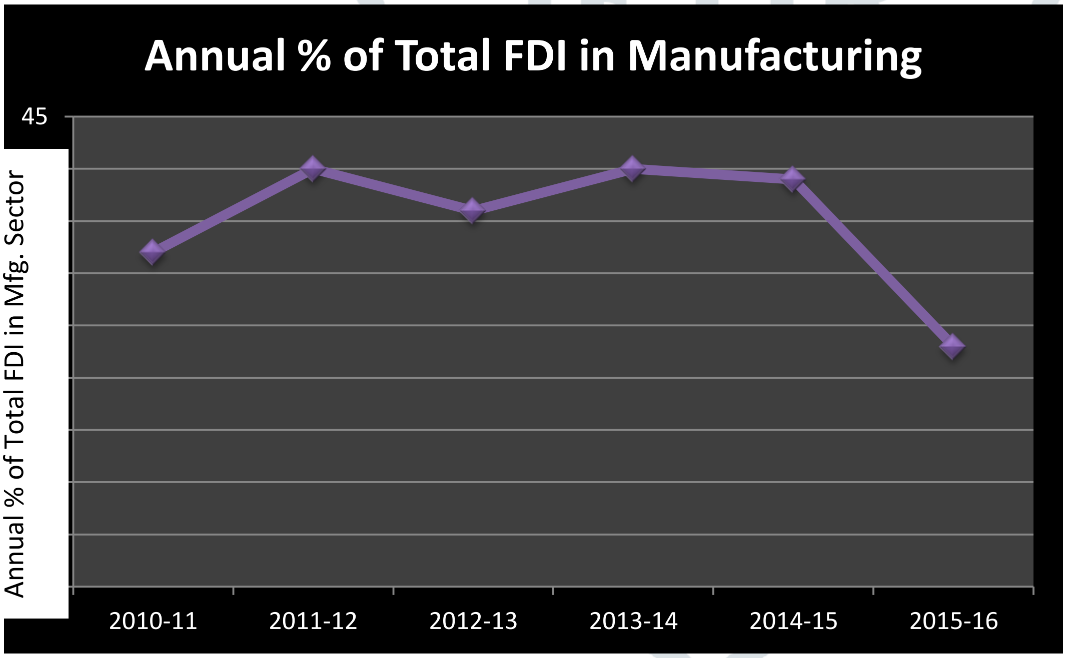
During the year 2015-16 highest inflow of FDI in the computer software & hardware sector is observed from the above table.

Table 3: Annual FDI inflows to India in Manufacturing (US $ billion)

Year	Annual FDI Inflows (US $ billion)	Annual % of Total FDI in Manufacturing
2010-11	4.79	32
2011-12	9.34	40
2012-13	6.53	36
2013-14	6.38	40
2014-15	9.61	39
2015-16	8.44	23

Source: RBI Annual Report





The table and the figure shows overall increasing trend in FDI inflows to the manufacturing sector.

By using trend projection method we can forecast the FDI inflow in to India in the manufacturing sector for the next two years i.e. 2017 and 2018 by taking the FDI data of 2012 to 2016 (5years)

Year	FDI Data (Y)	Time Deviation (X)	Square Up (X^2)	(XY)
2012	9.34	-2	4	-18.68
2013	6.53	-1	1	-6.53
2014	6.38	0	0	0
2015	9.61	+1	1	9.61
2016	8.44	+2	4	16.88
n=5	Σy = 40.30	Σx=0	Σx^2=10	Σxy=1.28

Equation used is Y = a + bx

$$\therefore \quad a = \frac{\Sigma_y}{n} = \frac{40.30}{5} = 8.06$$

$$b = \frac{\Sigma_{xy}}{\Sigma x^2} = \frac{1.28}{10} = 0.13$$

∴ 2017 = 8.06 + 0.13 X 3 = 8.45 billion

2018 = 8.06 + 0.13 X 4 = 8.58 US dollar

The trend projection also shows that there will be a marginal increase in the FDI flow in the manufacturing sectors. It would be 8.45 billion US dollars in 2017 and 8.58 billion US dollar in 2018.

As per the report of Boston Consultancy Group as projected 11% growth, the manufacturing sector's share in GDP can touch 25% by 2030 with 5% productivity increase and a GDP growth rate of 7.5%

Particulars	Vision for 2030
(i) Growth rate of manufacturing sector	10 – 11%
(ii) Share of manufacturing in GDP	21.6 – 25%
(iii) New Job opportunities	60 – 70 million
(iv) Share of India in Global merchandise trade	5.2% – 6.1%

Findings: The major findings of the study are:

1. After the enunciation of 'Make in India' programme new investment proposals are continuously increasing.
2. Make in India campaign over the last 3 years could attract FDI only in a few sectors like computer hardware & software, service sectors, chemicals, automobiles etc.
3. The total FDI flow to India has considerably increased after the declaration of 'Make in India Campaign'.
4. The forecast on FDI through the trend projection method also reveals that FDI inflow into the manufacturing sector will increase in the ensuing years.
5. The increased flow of FDI particularly in the manufacturing sector will help to achieve more than 7.5% GDP growth rate.
6. Make in India is helpful for the rational use of unemployed youths and their skill in the nation building.
7. Job opportunities may (60-70 million) increase at the expected rate.
8. India's share in global trade is also expected to increase by 5 to 6%.

Suggestions:

- With analysis of the facts and figures collected, the researcher has come to the following conclusions:
- For the successful implementation of the 'Make in India', there should be proportionate growth of skill development institution to utilize the skill of unskilled youths.
- Social and economic infrastructure facilities are to be updated.
- Adequate security to be ensured for the foreign investments as well as investors.
- The FDI procedures should be simplified so as to avoid the procedural delays.

Conclusion:

In connection with the 'Make in India Campaign', FDI plays a key role for the long-term development of our economy not only as a major source of capital but also increases competitive spirit among the indigenous producers through the up-gradation of technology, strengthening infrastructure, increasing productivity and creating new areas of employment. Finally, the study establishes positive correlation between make in India campaign & the flow of Foreign Direct Investments.

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