

Foreign Investment Contribution in India and Role of Make in India

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Abstract: -

Make in India started by Prime Minister Narendra Modi on 24/09/2014. This is considered as a form of indigenous movement by the Government of India so that Indian companies can be encouraged to produce goods and services. In India, domestic and foreign investment can be encouraged to manufacture. In the current era, FDI's can invest 74% in the space industry, 49% in defense industry, 26% in media and 100% allowed in all other sectors of India. According to 1991's reform, FDI's could invest 0% in the Railways but after the implementation of Make in India, FDI's were allowed 100% in the Railways. After the implementation of Make in India, Individual states of India have also started their local initiatives like Make in India. These states are Orissa, Vibrant Gujarat, Happening Haryana and Magnetic Maharashtra. Its main objective is to create jobs in the field of economic development and to make skilled labor. Due to rapidly growing global competition, the manufacturers of goods and services in the world have provided market opportunities for cheaper loans, labor, and good sources of raw materials. Focusing on unemployment and poverty, to promote trade and economy and to make the entire development of India and its citizens. FDI has been significantly focused on make in India. Economic development of the global economy, along with foreign investment, the country's growing skills, the main two factors of technological development are - (1) Export (2) FDI. Foreign investment can often be done in three ways – FDI, Disinvestment and Portfolio. The most important contribution of India's economic development is FDI which is used to help in the manufacturing sector of the country. The fast pace of foreign investors in India started primarily after the economic reforms of 1991. People of the world used all foreign countries to accelerate their economic growth. FDI (Foreign Direct Investment) have made investments in Indian companies' debt, equity and bonds. In India, there was a tremendous surge in FDI investments in the year of "Make in India". In year 2015, India's FDI investment was 4.06 lakh crores (US\$ 63 billion) which was more than China.

Keywords: -FDI, Make in India, Technology Development, Foreign Exchange

Introduction

FDI invests in production or business in another country to buy a company in any other country or expand its business abroad. It usually happens through bonds and shares. FDI refers to capital flows from abroad, which invest in the economy's production capacity and are generally preferred on other forms of external finance because they are non-loans, non-volatile and their return performance. Depending on the projects funded by investors, FDI also facilitates international trade and the transfer of knowledge, skills and technology. According to "Financial Times", the standard definition of control uses 10 percent voting shares internationally, but it is a gray area because often a small block of shares will provide widespread control over organized companies. In addition, control of technology, Management, even significant input, can provide real control too. "

History of FDI in India

The initial birth of FDI in India can be considered from the time of the establishment of Britain's East India Company during the colonial era in the 17th century when British merchants used to contact the Mughal Emperor for the establishment of a factory in Surat city of India. Along with them, the British brought the industrial revolution to India, which resulted in the development of transport (railways and roadways) and communication systems, which were for their benefit. New innovations and inventions happening around European countries also started from the Indian subcontinent. After World War II, many Japanese companies entered the Indian market and extended their business with India. After our independence, New India's policy makers felt the need for foreign investment for development and designed FDI policies, which target it as a medium to upgrade it. Getting technologies and valuable foreign exchange resources over time and there has been a change in the FDI policy as per economic and political governance. The industrial policy of 1965 allowed multinational companies to enter into India through technical cooperation. Therefore, the government has adopted a liberal attitude by allowing equity more consistently. Over time, the economic situation in the country and government's perspectives in power, policy makers' perspectives continue to change to foreign companies investing in India. FDI started in 1991, under the Foreign Exchange Management Act (FEMA), the then Finance Minister, Dr. Manmohan Singh did. It started with a \$ 1 billion baseline. India is considered to be the second important destination for foreign investment. The major areas attracting FDI include services, telecommunications, construction activities and computer software and hardware. In 1997, India allowed Foreign Direct Investment (FDI) in cash and carry bulk. Then, it was necessary to sanction the government. The requirement for acceptance was relaxed, and automatic permission was granted in 2006. From 2000 to 2010, Indian retail has attracted nearly \$ 1.8 billion in direct foreign investment, which represents 1.5% of the total investment flows in India. India has received total foreign investment of US \$ 306.88 billion since 2000, with 94 percent of the amount during the last nine years. In the period 1999-2004, India received foreign investment of US \$ 19.52 billion. During the period of 2004-09, foreign investment touched US \$ 114.55 billion, which increased from US \$ 172.82 billion between 2009 and September 2013. During the financial year 2012-13, India attracted FDI of US \$ 22.42 billion.

Tourism, pharmaceuticals, services, Chemicals and construction sectors were among the biggest beneficiaries.

- Foreign Direct Investment Schemes in India
- FDI in India has been approved in three ways along the way:

Modes of Foreign Investment in India

- FDI comprising of equity in India, convertible debentures / preference shares, Depository Receipts (ADR/GDR/FCCB) and LLP – Automatic Route or Government Route for Foreign Investors as well as NRIs.

- Foreign Portfolio Investment by NRI /PIO, FII, QIB and RFPI.
 - Foreign Venture Capital Investment by SEBI registered FVCIs.
 - Investment in Government Securities, NCDs etc by RFPI, FII, NRI, Foreign Central Bank.
 - Investment on repatriation and non-repatriation basis by NRI (NON RESIDENT INDIA) and PIO (PERSON OF INDIAN ORIGIN).
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- In FDI, generally there is foreign controlling shareholding. Where there are restrictions on shareholding, at least substantial share is of foreign investor and investment is long term.
 - Portfolio Investment is only with the intention of investing in securities to earn profits by way of capital appreciation and / or dividend with no intention to control the company in which the investment is made.
 - Foreign investment means all types of foreign investment, except debt (ECBs).
 - All types of foreign investments, direct and indirect, regardless whether they are made under Schedule 1 (FDI), Schedule 2 (FII), Schedule 2A (FPI), Schedule 3 (NRI), 6 (FVCI), 9 (LLPs), 10 (DRs) and 11 (Investment Vehicles) of FEMR.
FCCBs and DRs which have underlying instruments under Schedule 5, being debt, shall not be treated as foreign investment.
 - Any equity holding by a person resident outside India resulting from conversion of any debt instrument under any arrangement shall be reckoned as foreign investment.

Types of FDI

- 1. Horizontal FDI** arises when a firm duplicates the country-based activities of its home in the same value chain phase in a host country through FDI.
- 2. Platform FDI** Direct Foreign Direct Investment in the Country Destination Country with the purpose of exporting to third country
- 3. Vertical FDI** takes place when a firm through FDI moves upstream or downstream in different value chains i.e., when firms perform value adding activities stage by stage in a vertical fashion in a host country.

FDI Methods

Foreign direct investor can obtain the voting power of the enterprise in any of the following ways:

1. Including a wholly-owned subsidiary or company anywhere.
2. Receiving shares in an affiliate enterprise.
3. through the acquisition of mergers or unrelated ventures.
4. Participating in a joint venture with another investor or venture.

Literature view

Dunning (2004) studied the importance of institutional structure and development as the determiner of FDI and flowed into European transition economies. It played an important role in understanding the important role of institutional environment (both institutions and the organizations involved in these institutions, including the strategies and policies). It studied secondary data from 1998-2002 & 2003-2007. After this an analytical framework was established, which identifies the determinants of FDI in how they have changed in recent years, and the transition which is most important from the perspective of economies.

Sharma (2000) had studied data from the years 1970 to 1998, its main purpose was to contribute to the contribution of FDI in the export of Indian economy. It has come to this conclusion that in the last few years, the growth of India's exports was more than that of GDP. It has also been argued in the study that foreign companies are more interested in the larger Indian market rather than aiming for the global market. The business liberalization policy of the Government of India has some positive impact on the FDI flows.

Objectives of the Research

The purpose of study:

1. What is the trend of foreign investors in India?
2. What was the significance of FDI in "Make in India " campaign?
3. What role did the FII play in the economic development and production activities of India?

Research Methodology

Research Type: Descriptive Research Data Source used Secondary Data/Data source. The present study is based on secondary data. Basically, the required information has been derived from different websites/sources:

- Reserve Bank of India site
- <https://dipp.gov.in>
- Publications from Ministry of Commerce, Govt. of India that are available on internet.
- Various Newspapers, Magazines and Journals, and books.
- Economy of India.

APPENDIX TABLE 8: FOREIGN DIRECT INVESTMENT FLOWS TO INDIA: COUNTRY-WISE

(US \$ million)

Country/Years	2013-14	2014-15	2015-16	2016-17	2017-18 P
Mauritius	3695	5878	7452	13383	13415
Singapore	4415	5137	12479	6529	9273
Netherlands	1157	2154	2330	3234	2677
USA	617	1981	4124	2138	1973
Japan	1795	2019	1818	4237	1313
Cayman Islands	25	72	440	49	1140
Germany	650	942	927	845	1095
Hong Kong	85	325	344	134	1044
United Kingdom	111	1891	842	1301	716
Switzerland	356	292	195	502	506
UAE	239	327	961	645	408
France	229	347	392	487	403
China	121	505	461	198	350
Italy	185	167	279	364	308
South Korea	189	138	241	466	293
Cyprus	546	737	488	282	290
Canada	11	153	52	32	274
Others	1626	1682	2243	1490	1889
Total	16052	24747	36068	36316	37367

P: Provisional.

Note: Includes FDI through SIA/FIPB and RBI routes only. Source: RBI.

Conclusion of Table

Table 8 shows that the total flow in India is \$ 16,052 during year 2013 -14. Data has been collected from RBI site and it shows that the maximum amount of FDI flow in 2017-18 was 37367 US \$ million. Data shows that in 2013-14, US dollar 16052 was received in a small amount of investment whereas in 2017-18, the total FDI amount increased to 37367 US dollar which is more than doubling compared to 2013-14 figure.

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