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AN ANALYTICAL STUDY OF EFFECTIVENESS OF MAKE IN INDIA AND FDI ON VARIOUS SERVICES SECTORS IN INDIA

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Abstract

India has already marked its presence as one of the fastest growing economies of the world. It has been ranked among the top 10 attractive destinations for inbound investments. Since 1991, the regulatory environment in terms of foreign investment has been consistently eased to make it investor-friendly. The measures taken by the Government are directed to open new sectors for foreign direct investment, increase the sect oral limit of existing sectors and simplifying other conditions of the FDI policy. FDI policy reforms are meant to provide ease of doing business and accelerate the pace of foreign investment in the country

Index Terms- Make in India, Foreign Direct Investment, Economic Growth.

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1. INTRODUCTION

"Make in India" is a promotion of India's capability and stability that is required by foreign investors to invest in India. It's a way of Increasing FDI.**Make in India** is an international marketing campaigning slogan coined by the Prime Minister of India Mr. Narendra Modi on September 25, 2014 to attract businesses from around the world to invest and manufacture in India. The campaign, **'Make in India'** is aimed at making India a **manufacturing hub** and **economic transformation** in India while**eliminating the unnecessary laws and regulations**, making **bureaucratic processes easier and shorter**, and **Make in India** isan international campaigning slogan coined by the Prime Minister of India make **government more transparent**, **responsive**and**accountable**. The government emphasized upon the framework which include the time-bound project clearances through a single online portal which will be further aided by the eight-member team dedicated to answering investor queries within 48 hours and addressing key issues including labor laws, skill development and infrastructure. This campaign basically gives hope to the unemployed to find a decent job if not big jobs as manufacturing leads to creation of lot of service sector activity. But India will have to make sure to focus on quality education rather than just skill development. Make in India having 25 sector: Automobiles, Automobile Components, Aviation,Biotechnology,chemical**,Construction**,**Defense Manufacturing**, ElectricalMachinery,Electronic Systems, Food Processing, IT and BPM, Leather, Media andEntertainment, Mining, Oil andGas,Pharmaceuticals, Ports,**Railways**, Renewable Energy, **Roads and Highways**, Space, Textile Garments, Thermal Power, Tourism and Hospitality and Wellness.

A **Foreign direct investment** (**FDI**) is a controlling ownership in a business enterprise in one country by an entity based in another country. Foreign direct investment includes "mergers and acquisitions, building new facilities, reinvesting profits earned from overseas operations and intra company loans' in a narrow sense, foreign direct investment refers just to building new facilities. In India foreign investment was introduced in 1991 under **Foreign Exchange Management Act (FEMA)**, driven by then finance minister Manmohan Singh. As Singh subsequently became the prime minister, this has been one of his top political problems, even in the current times. India disallowed **overseas corporate bodies (OCB**) to invest in India. India imposes cap on equity holding by foreign investors in various sectors, current FDI in aviation and insurance sectors is limited to a maximum of 49%. Starting from a baseline of less than $1 billion in 1990, a 2012 **UNCTAD** survey projected India as the second most important FDI destination (after China) for transnational corporations during 2010–2012. As per the data, the sectors that attracted higher inflows were services, telecommunication, construction activities and computer software and hardware. Mauritius, Singapore, US and UK were among the leading sources of FDI.

II. REVIEW OF LITERATURE

Singh Kr. Arun and Agarwal P.K., (2012) "Foreign direct investment: The big bang in Indian retail". In this article they have studied the relation of foreign investment and Indian retail business. The study is based on different literatures, case studies and analysis of organised retail market. The author discusses the policy development for FDI in the two retail categories: single brand and multi brand. The author concludes that FDI in multi brand retail should be considered, better technology and employment. The paper also concludes that openness of FDI in India would help India to integrate into worldwide market.

Dr. Mamata Jain and Mrs. MeenalLodhanaSukhlecha, (2012), "FDI in multi brand retail: Is it the need of the hour?" The paper studies the need of the retail community to invite FDI in retailing. The study is under taken through analysis of positive and negative impacts of reforms. The study shows various advantages of FDI, which suggests for foreign participation in retailing, but the author also suggests that the ceiling should not exceed 51% even for single brands to ensure check and control on business operations.

Rajalakshmi K. and Ramachandran F., (2011), "Impact of FDI in India's automobile sector with reference to passenger car segment." The author has studied the foreign investment flows through the automobile sector with special reference to passenger cars. The research methodology used for analysis includes the use of ARIMA, coefficient, linear and compound model. The period of study is from 1991to 2011. This paper is an empirical study of FDI flows after post liberalization period. The author has also examined the trend ad composition of FDI flow and the effect of FDI on economic growth. The author has also identified the problems faced by India in FDI growth of automobile sector through suggestions of policy implications.

Dr. S N Babar and Dr. B V Khandare, (2012), "Structure of FDI in India during globalisation period". The study is mainly focused on changing structure and direction of India's FDI during globalisation period. The study is done through analysis of benefits of FDI for economic growth. The study has been done through sect oral analysis of FDI participation, as well as through study of country wise flow of foreign inflow in India till 2010.

Singh (2009) stated in their study that foreign direct investment (FDI) policies play a major role in the economic growth of developing countries around the world. Attracting FDI inflows with conductive policies has therefore become a key battleground in the emerging markets. The paper highlighted the trend of FDI in India after the sector-wise economic reforms.

Devajit (2012) conducted the study to find out the impact of foreign direct investments on Indian economy and concluded that Foreign Direct Investment (FDI) as a strategic component of investment is needed by India for its sustained economic growth and development through creation of jobs, expansion of existingmanufacturing industries, short and long term project in the field of healthcare, education, research and development.

Sharma Reetu and Khurana Nikita (2013) in their study on the sector-wise distribution of FDI inflow to know about which has concerned with the chief share, used a data from 1991-92 to 2011-2012 (post-liberalization period). This paper also discusses the various problems about the foreign direct investment and suggests the some recommendations for the same. In this study found that, Indian economy is mostly based on agriculture. So, there is a most important scope of agriculture services. Therefore, the foreign direct investment in this sector should be encouraged.

III. OBJECTIVES AND METHODOLOGY

A. Research Objectives :

- To discuss the Make in India AndFDI policy framework in India.
- To identify the various determinants of FDI.
- To understand the need for FDI in India.
- To Study the trends of FDI Flow in India during 2000-01 to 2015-16.
- To analysis sector wise inflow of FDI in India.

IV. RESEARCH METHODOLOGY :

- **Type of research: -** Quantitative & Analytical Research.
- **Data: -** Data of Manufacturing, Services & Construction, Real estate, mining sectors etc. from year April 2000 to June 2015 is considered for the study.
- **Data Collection Method: -** Secondary data from different web sites & reports of RBI, CEDAR-USIBC report on FDI, reports of Asian development bank.
- Sources of data collection: - The study is based on published sources of data collected from various sources. The data was extracted from the followingsources:
- Handbook of Statistics on the Indian economy, RBI.
- Economic Survey, Government of India.
- Department of Industrial Policy and Promotion (DIPP).
- Secretariat of Industrial Assistance (SIA).
- Central Statistical Organization (CSO).

This research is a descriptive study in nature. The secondary data was collected from various journals, magazines, and websites particularly from the Department of Industrial Policy & Promotion, Ministry of Commerce and Industry, India stat etc. Simple percentages have been used to defect the growth rate of India. Graphs and tables have also been used where ever required to depict statistical data of FDI during the study period. The time period of the study has been taken from the April 2000 to June 2016.

V. DATA ANALYSIS AND INTERPRETATION

Table No. 1

Top 10 Sectors that attracted foreign direct inflow in india

Service sector retains top spot, it & Hard ware Moves up to second position

Figures in US$ mn

Services Sectors	2015-16	2014-15
Services	6889	4443
Computer Software & Hardware	5904	2296
Trading	3845	2728
Automobile Industry	2527	2726

Chemicals(Except Fertilisers)	1470	763
Hotel & Tourism	1333	777
Telecommunication	1324	2895
Power	869	707
Drugs& Pharmaceuticals	754	1498
Construction Development	113	769

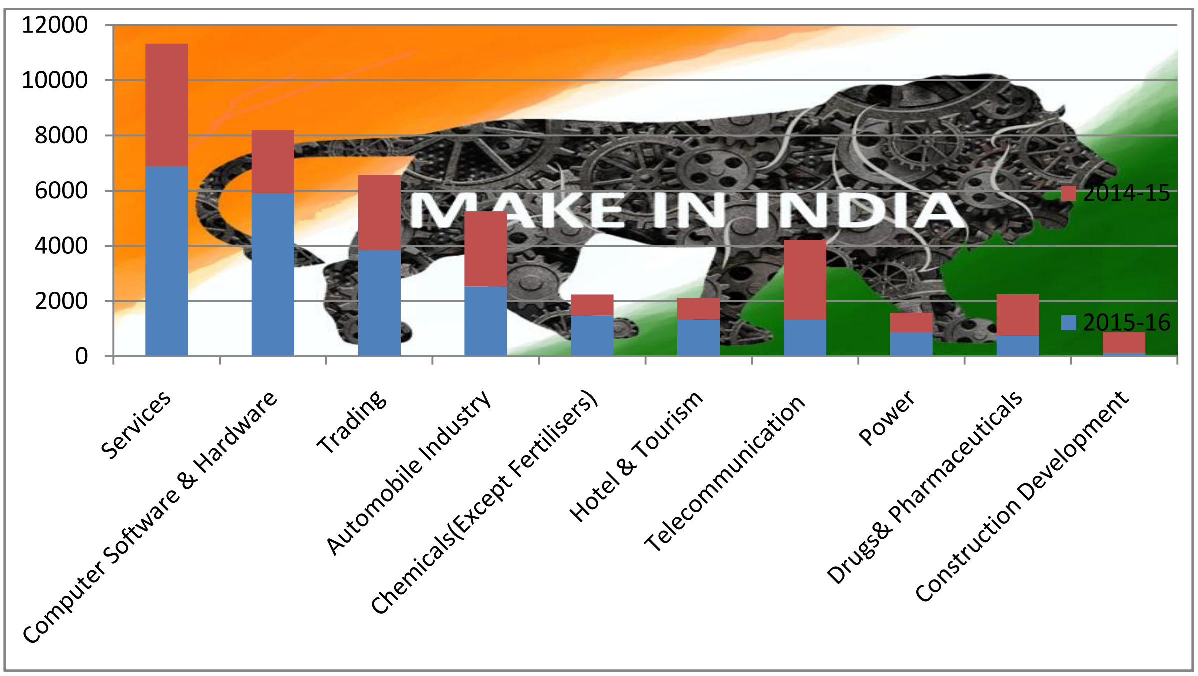
Services Sector include financial, Banking, Insurance, Non Financial/ Business, R&D Courier, Tech Testing and Analysis

Graph No. 1

Showing Top 10 Sectors that attracted foreign direct inflow in India

Service sector retains top spot, it & Hard ware Moves up to second position

Figures in US$ mn



The data show that a bulk of the $40 billion that India attracted by way of FDI during the financial year 2015-16, did not go into manufacturing, thereby putting a question mark over the efficacy of the 'Make in India' initiative. The data show that during 2015-16, the first full financial year of the Modi government, three non-manufacturing sectors - services, computer software and hardware, and trading - attracted more than 41.5% of the FDI inflow, whereas core manufacturing sectors such as automobiles, chemicals, power, pharmacy and construction got only 14% of the FDI.

The data further show that apart from the aforementioned non-manufacturing sectors, hotels and tourism and telecommunications were the others areas that saw foreign investors pumping in money.

In comparison, during the financial year 2014-15, India had received nearly $31 billion in FDI. Out of this, services, computer software and hardware and trading together received 30% of the total inflow whereas the core manufacturing sectors accounted for only 21% of the investment flowing in. This, however, was much higher a share when compared with 2015-16.

FDI into each of the three key manufacturing sectors actually registered a sharp decline in 2015-16 vis-a-vis 2014-15. Inflows into the automobile industry, for instance, fell from a little over $2.7 billion to $2.5 billion in the aforementioned period. The Pharmacy and construction sectors saw even sharper falls. While foreign investments into pharmacy companies nearly halved, the construction sector attracted less than a sixth of foreign money in 2015-16, as compared to the previous year.

- **SECTORS REQUIRING CENTRAL GOVERNMENT APPROVAL (RELEVANT PARA OF CONSOLIDATED FDI POLICY, JUNE 2016)**
- Mining and mineral separation of titanium bearing minerals and ores – Upto 100% (5.2.3.3*)
- Defenses – Beyond 49% & upto 100% (5.2.6)
- Publishing/printing of scientific and technical magazines/specialty journals/ periodicals – Upto 100% (5.2.8.3)
- Publication of facsimile edition of foreign newspapers – Upto 100% (5.2.8.4)
- Print Media - Publishing of newspaper and periodicals dealing with news and current affairs – Upto 26% (5.2.8.1)

- Print Media - Publication of Indian editions of foreign magazines dealing with news and current affairs – Upto 26% (5.2.8.2)
- Air Transport Service - Scheduled, and Regional Air Transport Service – Beyond 49% & Upto 100% (5.2.9.2(1))
- Satellites – establishment and operation – Upto 100% (5.2.12)
- Telecom Services – Beyond 49% & Upto 100% (5.2.14)
- Trading – Single Brand Retail Trading (SBRT) – Beyond 49% & Upto 100% (5.2.15.3)
- Pharmacy – Brownfield – Beyond 74% & Upto 100% (5.2.27.2)
- Banking – Private Sector – Beyond 49% & Upto 74% (5.2.18)
- Banking – Public Sector – Upto 20% (5.2.19)
- Private Security Agencies – Beyond 49% & Upto 74% (5.2.13)
- Broadcasting Content Service

1. FM Radio – Upto 49% (5.2.7.2.1)
2. Up linking of 'News & Current Affairs' TV Channels – Upto 49% (5.2.7.2.2)

- Trading - Multi Brand Retail Trading (MBRT) – Upto 51% (5.2.15.4)

- **SECTORS UNDER AUTOMATIC ROUTE (RELEVANT PARA OF CONSOLIDATED FDI POLICY, JUNE 2016)**

- Agriculture – 100% (5.2.1*)
- Plantation Sector – 100% (5.2.2)
- Mining of metal and non-metal ores – 100% (5.2.3.1)
- Mining – Coal & Lignite – 100% (5.2.3.2)
- Food Product Retail Trading – 100% (5.2.5)
- Broadcasting Carriage Services (Teleports, DTH, Cable Networks, Mobile TV, HITS) – 100% (5.2.7.1)
- Broadcasting Content Service - Up-linking of Non-'News & Current Affairs' TV Channels/ Down-linking of TV Channels – 100% (5.2.7.2.3)
- Airports – Greenfield – 100% (5.2.9.1 (a))
- Airports – Brownfield – 100% (5.2.9.1 (b))
- Air Transport Service – Non-Scheduled – 100% (5.2.9.2 (2))
- Air Transport Service – Helicopter Services/ Seaplane Services – 100% (5.2.9.2 (3))

- Ground Handling Services – 100% (5.2.9.3 (1))
- Maintenance and Repair organizations; flying training institutes; and technical training institutions – 100% (5.2.9.3 (2))
- Construction Development – 100% (5.2.10)
- Industrial Parks – new and existing – 100% (5.2.11)
- Trading – Wholesale – 100% (5.2.15.1)
- Trading – B2B E-commerce – 100% (5.2.15.2)
- Duty Free Shops – 100% (5.2.15.5)
- Railway Infrastructure** – 100% (5.2.16)
- Asset Reconstruction Companies – 100% (5.2.17)
- Credit Information Companies – 100% (5.2.20)
- White Label ATM Operations – 100% (5.2.25)
- Non-Banking Finance Companies – 100% (5.2.26)
- Pharma – Greenfield – 100% (5.2.27.1)
- Petroleum & Natural Gas - Exploration activities of oil and natural gas fields – 100% (5.2.4.1)
- Petroleum refining by PSUs – 49% (5.2.4.2)
- Infrastructure Company in the Securities Market – 49% (5.2.21)
- Commodity Exchanges – 49% (5.2.21)
- Insurance – 49% (5.2.22)
- Pension – 49% (5.2.23)
- Power Exchanges – 49% (5.2.24)

VI.FINDINGS

- 49% FDI under automatic route permitted in Insurance and Pension sectors
- Foreign investment up to 49% in defense sector permitted under automatic route. The foreign investment in access of 49% has been allowed on case to case basis with Government approval in cases resulting in access to modern technology in the country or for other reasons to be recorded

- FDI limit of 100% (49% under automatic route, beyond 49% government route) for defense sector made applicable to Manufacturing of Small Arms and Ammunitions covered under Arms Act 1959
- FDI up to 100% under automatic route permitted in Teleports, Direct to Home, Cable Networks, Mobile TV, Headend-in- the Sky Broadcasting Service
- FDI up to 100% under automatic route permitted in Up-linking of Non-'News & Current Affairs' TV Channels, Down-linking of TV Channels
- In case of single brand retail trading of 'state-of-art' and 'cutting-edge technology' products, sourcing norms can be relaxed up to three years and sourcing regime can be relaxed for another 5 years subject to Government approval
- Foreign equity cap of activities of Non-Scheduled Air Transport Service, Ground Handling Services increased from 74% to 100% under the automatic route
- 100% FDI under automatic route permitted in Brownfield Airport projects
- FDI limit for Scheduled Air Transport Service/ Domestic Scheduled Passenger Airline and regional Air Transport Service raised to 100%, with FDI upto 49% permitted under automatic route and FDI beyond 49% through Government approval
- Foreign airlines would continue to be allowed to invest in capital of Indian companies operating scheduled and nonscheduled airtransport services up to the limit of 49% of their paid up capital
- In order to provide clarity to the e-commerce sector, the Government has issued guidelines for foreign investment in the sector. 100% FDI under automatic route permitted in the marketplace model of e-commerce
- 100% FDI under Government route for retail trading, including through e-commerce, has been permitted in respect of food products manufactured and/or produced in India
- 100% FDI allowed in Asset Reconstruction Companies under the automatic route
- 74% FDI under automatic route permitted in brownfield pharmaceuticals. FDI beyond 74% will be allowed through government approval route
- FDI limit for Private Security Agencies raised to 74% (49% under automatic route, beyond 49% and upto 74% under government route)
- For establishment of branch office, liaison office or project office or any other place of business in India if the principal business of the applicant is Defense, Telecom, Private Security

or Information and Broadcasting, approval of Reserve Bank of India would not be required in cases where FIPB approval or license/permission by the concerned Ministry/Regulator has already been granted

- Requirement of 'controlled conditions' for FDI in Animal Husbandry (including breeding of dogs), Piscesculture, Aquaculture and Apiculture has been waived off.

VII. CONCLUSION

As Prime Minister Modi emphasized on the development of labour intensive manufacturing sector.So,this campaign will generate a lot of employment opportunities in Manufacturing,number expected to be around 100 milliooon jobs by 2022.This campaign will help in achieving objectives of national manufacturing policy to increase the share of manufacturing sector in GDP from current 15-16% To 25%Till 2022.Employment will increase people'spurchasingpower which ultimately helps in of poverty eradication and expansion of consumer base for companies.The model of "look east and link west"policy will strengthen the industrial linkages as well as bilateral ties with many countries.FDI play a dominant role in indiammarket.HoweverFlls are highly volatile in nature and a sudden exodus of hot money from india can effect a nosedive in the bellwether indices.Make in india will give an unprecedented boost to FDI flows,bringingindia back to the global investment radar.

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