

A Study of Foreign Direct Investment (FDI) on Manufacturing Industry in India: An Emerging Economic Opportunity of GDP Growth and Challenges

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Abstract

The economic development of a country is based on its Industries Revolution with more production and promotion (Less Import and more Export of Product) which are mostly possible through the revolution of agriculture, industries etc. in many sectors . The developments are easily possible when Foreign Direct Investment (FDI) comes to India and enters in 1991. It is an important source of Economic development in India, because it helps to bring close the different economies of the country by investing capital through FDI in various resources like manufacturing, infrastructure, transport, technology, services, productivity and hospitality etc. This paper seeks to present "The Role of Foreign Direct Investment (FDI) on Manufacturing Industry in India: An Emerging Opportunity of GDP Growth and its Challenges" particularly studies about the role and Importance of FDI in manufacturing sector. Here, the researcher has taken the hypothesis (Ho), maximization of FDI in manufacturing Sector in Industry it develops the economic condition of the factory as well as the Country with maximizing GDP (He). Where this paper taken two variables of study for extracts how it impact on the manufacturing sector of the country and how it affects the economic growth of GDP. It analyzes about the growth of economy and manufacturing sector of Indian Companies due to liberalization of Economic Policy of the Country as well as the policy framed by the honorable Prime Minister Mr. Narendra Damodar Das Modi's dream Project of "Make in India" and Smart Cities" etc.

In this research article, the researcher has focused on the center of Foreign Direct Investment (FDI) on manufacturing Industries of India. By investing more FDI it facilitates the economic development & as well as increase the growth of the domestic Product (GDP) of the country and found its positive impact in every sector of industrial life and Human life in order to maintain a sustainable & moderate life style.

Keywords: Foreign direct investment; Gross domestic product; Manufacturing sector; Make in India; Smart cities; Infrastructure development

Introduction

India is an attractive hub for foreign investments in the manufacturing sector. Several mobile phone, 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 assist in integrating, monitoring and developing a friendly environment for the industrial development and will promote advance practices in manufacturing.

India is ranked fourth in the world in terms of manufacturing capability, according to the "2013 Global Manufacturing Competitiveness Index (GMCI)" by Deloitte Touche Tohmatsu and the US Council on Competitiveness. Though there are many studies on FDI still it needs more attention on how to attract more FDI for that it requires more studies on FDI on manufacturing sector. Over the last two decades India open its market and slowly it becomes second in the world in terms of 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. FDI 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 GDP has to improve in a faster rate. But this is not the case in Indian manufacturing sector because of

its low contribution of 16% to GDP. Research says the manufacturing sector in India has the potential to reach USD 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.

Literature Review

In the literature review section, the researchers tries to examine the trends of FDI inflows in to Indian Manufacturing sectors, though enters to the Indian market. There are hardly few studies which look into manufacturing sector. So, the researcher makes an attempt to examine the flow of FDI into 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 [1] in his research paper "FDI and Indian Economic growth factors-An Empirical Analysis-2014" 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

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growth in India. It also contributes to the GDP and foreign exchange reserves of the country.

Pais [2] in his paper “Foreign Direct Investment: Impact on Indian Economy” 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 [3] in his research paper titled “Making India an Attractive Investment Destination: Analyzing FDI Policy and Challenges” outlines India’s foreign direct investment (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 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 [4] in his thesis “FDI and Industrial Development in India” found out that a positive high co-efficient of correlation is found between FDI approvals and actual inflows. RBI 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 [5] in their research paper “Determinants of Manufacturing FDI in India: A sectoral analysis”. They found out that Manufacturing FDI in India significantly negatively affected by tariffs, import-intensity, R&D intensity, where as it is positively impacted by market power. FDI inflows has been higher in those 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.

Problem Formulation

This paper refers to study the flow of FDI into manufacturing sector in India & its impact for manufacturing Growth in Indian Industries for enhancing the economic growth per capital as well as the domestic sector. The present study tries to assessing the determinants and impact of FDI in Indian economic factors. Thus, the present study is an endeavour to discuss the trends and patterns of FDI, and its impact of FDI on Indian economy [6].

Objectives of the study

- i. To study the trend and pattern of FDI into manufacturing sector.
- ii. To internal factors which influence the FDI inflows into manufacturing sector.
- iii. To identify the factors which influence the flow of FDI in India?
- iv. To investigate empirically the role and effect of Foreign Direct Investment (FDI) on manufacturing industry and its economic growth factors and their causality using annual data of Indian Economy over the post reforms period 2001 to 2014.

Research Methodology

The researcher has proposed to examine FDI inflows for a period from 2000 to 2015 in to India. In order to accomplish the said objective

the researcher compares each year data with the previous year data.

Sources of data collection

In this research paper, the researcher has trying to her level best to collect the data from secondary sources which is purely an Empirical study like published research papers, journals, magazines, websites such as www.tradingeconomics.com RBI websites, Government of India websites, and various issues of DIPP, Central Statistical Organization, and Handbook of Statistics on Indian Economy. The study carried out is analytical and empirical in nature in which it explores the relationship between the Inflows of FDI and their impact on Indian economic growth. Further, in order to show the position of FDI we selected different economic level of study.

Period of Study

This paper analyzed FDI inflows from 2000 to 2014 into manufacturing sectors.

Brief overview of manufacturing sector

Sub-sectors of manufacturing

- a. Metals and Mining
- b. Automobile
- c. Heavy engineering and construction Equipment
- d. Chemical Sectors
- e. Electronics components
- f. Cement

a. Metals and mining

- The total value of mineral and production including minor minerals but excluding atomic minerals in FY12 and FY13 was about USD 49 billion and USD 43.1 billion, respectively.
- By 2020, the metals and mining sector in India has the potential to contribute around USD 150 billion to GDP, create new employment for 2.3 million people and contribute USD 40 billion to the government revenues.
- India ranks fourth globally in terms of iron ore production and by 2015, India is expected to become the second largest producer of steel.
- The government allows 100 percent FDI under automatic route in the metals and mining sector.

b. Automobile sector

- India’s automotive sector is the largest manufacturing sector in India accounting to 22 percent of India’s manufacturing GDP.
- The auto component sector employs approximately 19 million people (direct and indirect) and the requirement is expected to reach 25 million by 2016 and 35 million by 2022.
- 100 percent FDI under automatic route allowing free imports of automotive components and de-licensing in the automotive sector has helped in developing the sector.

c. Heavy engineering and construction equipment

- This sector derives demand from the infrastructure industry in India. The construction sector’s capacity in India exceeds the domestic demand which shows potential for increasing exports and improving utilization.

- The construction equipment sector in India was estimated to have generated USD 6.4 billion in revenues in FY13, and is expected to reach USD 9.9 billion in FY15 and USD 22.2 billion in FY 20.
- India is a preferred destination by global companies for outsourcing work related to the engineering sector as India has a large base of skilled and lower cost labor long with better designing capabilities.

d. Chemical sector

- The Indian chemical industry is the 3rd largest producer in Asia in terms of volume of production, and twelfth in the world. The industry accounts for almost seven percent of world's production of dyestuff and dye intermediates, particularly for reactive acid and direct dyes.
- The chemical industry is expected to grow at an annual rate of 15 percent to reach USD 290 billion by 2017.
- Supportive government policies and the domestic environment including 100 percent FDI under the automatic route and delicensing the manufacturing of most chemical products, has supported the growth of the sector.

e. Electronic Components

- In India, the demand for electronic component and semiconductor designs exceeded INR 68.1 billion in FY13, with domestic output 40 percent of the total demand. A significant share approximately 30 percent of the component production is exported, leaving only 25 percent for domestic consumption, which is used in the production of local equipment [7-9].
- The electronic component and semiconductor design market size increased from INR 9.6 billion in 2008 to INR 26.5 billion in 2013 and is estimated to touch INR 62.4 billion by 2022.
- The organized sector is expected to increase its market share from 80 percent in 2013 to 85 percent in 2022, with increasing competition in the sector expected to drive out small enterprises that constitute the unorganized sector.

f. Cement

- The cement production in India has increased at a CAGR of 9.7 percent to reach 272 MT during FY 06-13. Currently, India is the second largest producer of cement in the world having current capacity of around 370 MT which is expected to grow to 550 MT by FY20.
- The sector comprises 167 large cement plants which constitute about 95 percent of total installed capacity, while the remainder is constituted by the mini-cement plants.
- The sector is divided into five geographical regions-south, north, east, west and central. Each of these regions has a significant limestone cluster and acts a major production center of cement.

Trend and Patterns of FDI

From APRIL, 2000 to MARCH, 2015 (Cumulative FDI flows into India (2000-2014))

Total FDI inflows (from April, 2000 to November, 2014) were shown in Table 1 and the FDI inflows during financial year 2014-15

were shown in Table 2. The FDI inflows during financial year 2013-14 (from April, 2013 to March, 2014) were shown in Table 3. The FDI inflows during financial year 2012-13 (from April, 2012 to March, 2013) were shown in Table 4. Table 5 shows Amount of FDI Equity inflows for particular financial year, Table 6 shows Sectors attracting highest FDI equity inflows [10-12].

Method of Study

In this research, we have taken the empirical study for collection of various data from the sources of secondary mode of data collection from various published and unpublished sources i.e., journals, economical survey report, economic department of India, industrial manual, RBI annual report, Share market, stock exchange etc.

Limitations of the Study

The various limitations of the study are at various stages, the basic objective of the study is suffered due to inadequacy of time series data from related agencies. There has also been a problem of sufficient homogenous data from different sources.

FDI Investment of Manufacturing in Various Sectors in Bar-Graph from 2011 to 2015

FDI Investment of Manufacturing in Various Sectors in Bar-Graph from 2011 to 2015 is shown in Figure 1.

Hypothesis

In this paper, the researcher have taken an hypothesis in anticipation of the afore mentioned problem title .Where the study has been taken up for the period from 2011 to 2015 in order to observe the Trend and Pattern of FDI in manufacturing industry. Here, the researcher has taken the Null hypothesis (H^1) that there is a negative trend of FDI investment into manufacturing sector between 2011 to 2015. In (H^2) therefore, the researcher has focussed to analyse the following sector of hypothesis that:

- (i) Flow of FDI shows a positive trend over the period from 20011 to 2015.
- (ii) FDI has a positive impact on economic growth of the country.

Statistical Method

We the researcher trying to our level best to know about the relationship of FDI flows in between the FDI Work Flow and FDI Cumulative work flows from financial year 2011-2012 to 2014-2015 (four year) by using the correlation co-efficient method (Table 7).

Hypothesis Testing: (Ratio Analysis)

We testing the hypothesis by taking two variable of FDI work flows and found out that, in between the two variable the relationship is very high because they obtained co-efficient is 0.17 and the table value at 0.01 level and 0.05 level is $n-1 = 3$ or $4-1 = 3$ is less than the table value is 0.8000. So, we reject the null hypothesis (H_0) and accept the alternative hypothesis (H_c).

Correlation in Between the Variables

By using the spearman's Co-efficient upon a Bio-Nominal Curve, with taking the two above said hypothesis, we come to conclusion, both variables (variable V_1 , and V_2) are inter related and useful. Therefore, we conclude that, FDI flows in manufacturing sector are enhancing the economic growth of the India, by various ways.

Semiotic Model of Pie Chart

The researcher has taken the semiotic model of FDI from the data's

1	Cumulative amount of FDI inflows (Equity inflows + RE-invested earnings' + 'Other capital')	Rs. 1718629 Crore	US\$ 368439 Million
2	Cumulative amount of FDI equity inflows (excluding, amount remitted through RBI's-+NRI Schemes)	Rs. 1233005 Crore	US\$ 248512 Million

N.B: The cumulative amount of inflow of FDI was US\$ 350,963 million for the period from April, 2000 to November, 2014. While the FDI inflow to India during the financial year 2012-13 was US\$ 36,860 million, for 2013-14 was US\$ 36,396 million, for 2014-15 (from April, 2014 to November, 2014) was US\$ 27,401 million.

Table 1: Total FDI inflows (from April, 2000 to November, 2014).

1	Total FDI inflows into India (Equity inflows + 'Re-invested earnings' + 'Other capital') (As per RBI's Monthly bulletin dated: 09.01.2015).	Rs. Crore	US\$ 44877 million
2	FDI equity inflows	Rs. 189107 Crore	US\$ 30931 million

Table 2: FDI inflows during financial year 2014-15.

1	Total FDI inflows into India (Equity inflows + 'Re-invested earnings' + 'Other capital') (As per RBI's Monthly bulletin dated: 09.01.2015).		US\$ 36,396 million
2	FDI equity inflows	Rs. 147518 Crore	US\$ 24,299 million

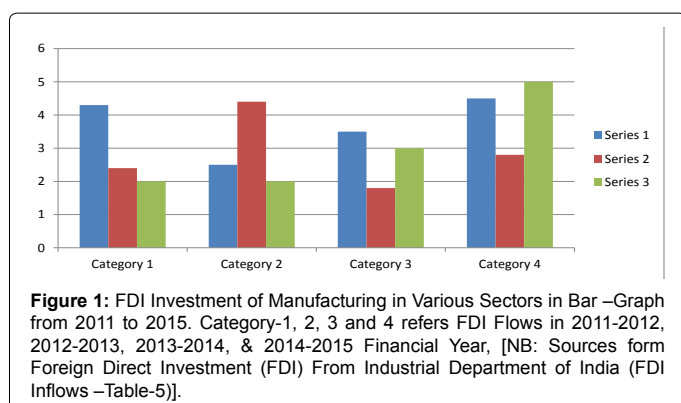
Table 3: FDI inflows during financial year 2013-14 (from April, 2013 to March, 2014).

1	Total FDI inflows into India (Equity inflows + 'Re-invested earnings' + 'Other capital') (As per RBI's Monthly bulletin dated: 09.01.2015).	Rs. 200396.6 Crore	US\$ 36,860 million
2	FDI equity inflows	Rs. 121907 Crore	US\$ 22,423 million

Table 4: FDI inflows during financial year 2012-13 (from April, 2012 to March, 2013).

Financial Year	Amount of FDI Equity inflows	
	(In Rs. Crore)	(In US\$ MN)
2014-15 (from April, 2014 to March, 2015)	189107	30931
2013-14 (from April 2013 to March 2014)	147,518	24,299
%age growth over last year	(+) 28	(+) 27
2012-13 (from April, 2012 to March, 2013)	121,907	22,424
%age growth over last year	(+) 21%	(+) 8%
2012-13 (up to March, 2013)	121,907	22,424
2011-12 (up to March, 2012)	165,146	35,121
%age growth over last year	(-) 28%	(-) 38%

Table 5: Amount of FDI Equity inflows for particular financial year.



of FDI flows from 2001 to 2015 (Table 5) for the testing of hypothesis by using correlation Co-efficient method. Percentage of FDI Work flows in India for the financial year 2011-to2015 (Figure 2).

Foreign Direct Investments and Manufacturing Expansion

In a major boost to the 'Make in India' initiative, the Government of India has received investment proposals of over Rs 1,10,000 Crore (US\$

16.56 billion) in the last 12 months from various companies including Airbus, Phillips, Thomson, Samsung, LG and Flextronics among others.

Some of the major investments and developments in this sector in the recent past are:

- Siemens has announced that it will invest € 1 billion (US\$ 1.13 billion) in India to add 4,000 jobs to its existing workforce of 16,000 in the country [13].
- US-based First Solar Inc and China's Trina Solar have plans to set up manufacturing facilities in India. Clean energy investments in India increased to US\$ 7.9 billion in 2014, helping the country maintain its position as the seventh largest clean energy investor in the world.
- Samsung Electronics has invested Rs 517 Crore (US\$ 77.82 million) towards the expansion of its manufacturing plant in Noida, Uttar Pradesh (UP). "Samsung India Electronics is committed to strengthen its manufacturing infrastructure and will gradually expand capacity at this plant to meet the growing domestic demand for mobile handsets, as per the company.
- India is currently among the top 10 sourcing countries for IKEA. The plan is to double sourcing from India to €630 million (US\$ 711.65 million) by 2020.

Ranks	Sector	2012-13 (April - March)	2013-14 (April- March)	2014-15 (April-Mar, 2015)	Cumulative Inflows (April '2011 - Mar '2015)	% age to total Inflows (In terms of US\$)
1	Services sector	26,306 (4,833)	13,294 (2,225)	19,963 (3,253)	205,532 (42,713)	17%
2	Construction development: Townships, housing, built-up infrastructure	7,248 (1,332)	7,508 (1,226)	4,582 (758)	113,140 (24,064)	10%
3	Telecommunications (radio paging, cellular mobile, basic telephone services)	1,654 (304)	7,987 (1,307)	17,372 (2,895)	84,092 (17,058)	7%
4	Computer software & hardware	2,656 (486)	6,896 (1,126)	13,564 (2,200)	73,235 (15,017)	6%
5	Drugs & pharmaceuticals	6,011 (1,123)	7,191 (1,279)	9,211 (1,523)	65,282 (13,121)	5%
6	Automobile industry	8,384 (1,537)	9,027 (1,517)	15,794 (2,570)	63,991 (12,383)	5%
7	Chemicals (other than fertilizers)	1,596 (292)	4,738 (878)	4,077 (669)	49,310 (10,337)	4%
8	Power	2,923 (536)	6,519 (1,066)	3,985 (657)	46,640 (9,557)	4%
9	Metallurgical industries	7,878 (1,466)	3,436 (568)	2,897 (472)	41,147 (8,547)	4%
10	Hotel and tourism	17,777 (3,259)	2,949 (486)	16,962 (2,761)	43,799 (8,060)	3%
Total Ten Year						

Table 6: Sectors attracting highest FDI equity inflows.

Year	FDI In flows on Manufacturing Sector[X]	$\frac{[X-\bar{X}]}{X'}$	X ²	Cumulative FDI Flows On Manu- fracturing sector [Y]	$\frac{[Y-\bar{Y}]}{Y'}$	Y ²	XY
2014-2015	189,107	33,188	1,101,443	205,532	86,557	7492,114	3,948,542
2013-2014	147,518	-8,401	70,577	113,140	-5,835	34,007	2,566
2012-2013	121,907	-34,012	115,681	84,012	-34,963	12,224,15	-0,951.
2011-2012	165,146	-9,227	85.137	73,235	-45,740	2,092,15	53,487
			$\sum X^2=623678$			$\sum Y^2=475899$	$\sum xy=6,094,455$

N = 4, X = $\sum x = 623678/4=155,919$ y = $\sum y=475899/4=118,975$; Correlation coefficient (r) = $\frac{\sum xy}{\sqrt{\sum x^2 \cdot \sum y^2}} = \frac{239,717}{\sqrt{623678 \cdot 475899}} = 0.0167=0.1$

Table 7: Calculation of FDI work flow by correlation co-efficient method.

- Shantha Biotechnics Private Limited has started building a facility to manufacture Insuman, an insulin product to treat diabetes. Sanofi SA, which acquired Shantha Biotechnics, will invest Rs 460 Crore (US\$ 69.24 million) to build the facility.
- BMW and Mercedes-Benz have intensified their localization efforts to be part of 'Make in India' initiative. "The localization efforts will reduce the waiting period and accelerate the servicing process of our cars as we had to (previously) depend on our plants overseas for supply and will help us on the pricing front."
- Suzuki Motor Corp plans to make automobiles for Africa, the company's next big bet, as well as for India at its upcoming factory in Hansalpur, near Ahmadabad, Gujarat [14].
- Taiwan-based HTC has decided to manufacture products in India. HTC is believed to have partnered GDN Enterprises, which has an assembly set up in Noida.
- Foxconn is planning an aggressive expansion in India, building up to 12 new factories and employing as many as one million workers by 2020.
- The State Government of Tamil Nadu has signed investment

agreements worth Rs 2, 42,160 Crore (US\$ 36.45 billion) during a two-day Global Investors Meet in September 2015.

Government Initiatives

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

- The Government of India has asked New Delhi's envoys in over 160 countries to focus on economic diplomacy to help government attract investment and transform the 'Make in India' campaign a success to boost growth during the annual heads of missions' conference. Prime Minister, Mr. Modi has also utilized the opportunity to brief New Delhi's envoys about the Government's Foreign Policy priority and immediate focus on restoring confidence of foreign investors and augmenting foreign capital inflow to increase growth in manufacturing sector.
- The Government of Uttar Pradesh (UP) has secured investment deals valued at Rs 5,000 Crore (US\$ 752.58 million) for setting

up mobile manufacturing units in the state [15,16].

- The Government of Maharashtra has cleared land allotment for 130 industrial units across the state with an investment of Rs 6,266 Crore (US\$ 943.13 million).
- Dr Jitendra Singh, Union Minister of State (Independent Charge) of the Ministry of Development of North Eastern Region (DoNER), MoS PMO, Personnel, Public Grievances and Pensions, Atomic Energy and Space, Government of India, has announced the 'Make in Northeast' initiative beginning with a comprehensive tourism plan for the region.
- Government of India has planned to invest US\$ 10 billion in two semiconductor plants in order to facilitate electronics manufacturing in the country.
- New Entrepreneurs of small-scale businesses in India will soon be able to avail loans under PradhanMantri MUDRA Yojana (PMMY). The three products available under the PMMY include: Shishu - covering loans up to Rs 50,000 (US\$ 752), Kishor - covering loans between Rs 50,000 (US\$ 752) to Rs 0.5 million (US\$ 7,520), and Tarun - covering loans between Rs 0.5 million (US\$ 7,520) and Rs 1 million (US\$ 15,052).

Road Ahead

The Government of India has an ambitious plan to locally manufacture as many as 181 products. The move could help infrastructure sectors such as power, oil and gas, and automobile manufacturing that require large capital expenditure and revive the Rs 1,85,000 Crore (US\$ 27.85 billion) Indian capital goods business.

Impact of FDI Inflows on the Indian Economy

The role of FDI on the manufacturing industry and its impact on Indian economy growth is hypothesized as per the economic factors included in the analysis are GDP, Currency, Stock Market, Foreign Exchange Reserves, Interest Rate, Current Account, Exports, Imports, and Unemployment Rate are used to assess the relationship between these economic factors and FDI inflows India. The result for which could be summarized.

Conclusion

Foreign direct investment 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 with 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. 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 to states, so that they can attract FDI inflows at their own level. Further the study shows the share of FDI in different economic growth factors from 1995 to 2014. From the above discussions of the study, it is observed from the results of above analysis that Trade, GDP, Reserves GDP, Exchange rate, are the main determinants of FDI inflows to the country. In other words, these economic growth factors have a profound impact on the inflows of FDI in India.

FDI plays a significant role in enhancing the level of economic growth of the country. This analysis also helps the future aspirants of research scholars to identify the main determinants of FDI at sectorial level. Finally, the study observes that FDI is a significant factor influencing the economic growth in India. It provides a sound base for economic growth and development by enhancing the financial position of the country.

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% age to total Inflows (In terms of US\$)

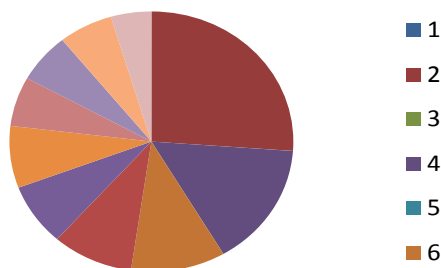


Figure 1: Percentage of FDI work flows in India for the financial year 2011-2015.

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