

# FDI In Make In India

Rajaganesh.S  
Selvakumar, Sundara Mahalingam  
I Year Mba Psr Engineering College

## **Abstract:**

*Apart from being a critical driver of economic growth, foreign direct investment (FDI) is a major source of non-debt financial resource for the economic development of India. Foreign companies invest in India to take advantage of relatively lower wages, special investment privileges such as tax exemptions, etc. For a country where foreign investments are being made, it also means achieving technical know-how and generating employment. Make in India is a major new national program of the Government of India designed to facilitate investment, foster innovation, enhance skill development, protect intellectual property and build best in class manufacturing infrastructure in the country. The primary objective of this initiative is to attract investments from across the globe and strengthen India's manufacturing sector.*

## **Introduction:**

The Indian government's favorable policy regime and robust business environment have ensured that foreign capital keeps flowing into the country. The government has taken many initiatives in recent years such as relaxing FDI norms across sectors such as defense, PSU oil refineries, telecom, power exchanges, and stock exchanges, among others.

## **Market size:**

According to Department of Industrial Policy and Promotion (DIPP), the total FDI investments India received during April - September 2016 rose 30 per cent year-on-year to US\$ 21.6 billion, indicating that government's effort to improve ease of doing business and relaxation in FDI norms is yielding results.

Data for April - September 2016 indicates that the services sector attracted the highest FDI equity inflow of US\$ 5.29 billion, followed by telecommunications – US\$ 2.79 billion, and trading – US\$ 1.48 billion. Most recently, the total FDI equity inflows for the month of September 2016 touched US\$ 5.15 billion.

During April - September 2016, India received the maximum FDI equity inflows from Mauritius (US\$ 5.85 billion), followed by Singapore (US\$ 4.68 billion), Japan (US\$ 2.79 billion), (US\$ 1.62 billion), and USA (US\$ 1.44 billion).

Impact investments in India is expected to grow at a compound annual growth rate (CAGR) of 20-24 per cent to touch US\$ 6-8 billion by 2025, from US\$ 1 billion in 2015.1

## **Government Initiatives:**

The Government of India has approved 100 per cent FDI in other financial services carried out by non-banking finance companies (NBFCs), which is expected to attract more foreign capital into the country.

The National Highways Authority of India (NHAI) plans to offer a risk cover to foreign investors who are willing to invest in government owned operational national highways, which would cover risk associated with the possibility of structural design fault, sub-standard quality of construction, and loss of traffic.

The Union Cabinet has approved a scheme allowing the grant of Permanent Residency Status (PRS) to foreign investors based on a minimum investment of Rs 10 crore (US\$ 1.5 million) within 18 months or Rs 25 crore (US\$ 3.6 million) within 36 months, which is expected to encourage foreign investment and facilitate Make in India program

## **Make In India:**

The focus of Make in India program is on 25 sectors. These include: automobiles, aviation, chemicals, IT & BPM, pharmaceuticals, construction, defense manufacturing, electrical machinery, food processing, textiles and garments, ports, leather, media and entertainment, wellness, mining, tourism and hospitality, railways, automobile components, renewable energy, biotechnology, space, thermal power, roads and highways and electronics systems.

The dedicated website for this initiative ([www.makeinindia.com](http://www.makeinindia.com)) not only showcases the 25 sectors but also puts focus on the live projects like industrial corridors and policies in the area of foreign direct investment, national manufacturing, intellectual property and new initiatives. The Investor Facilitation Cell is an integral part of this website, which aims at providing all information/data analysis to investors across sectors.

The Make in India initiative, has become the largest and fastest growing government initiative ever with over 2.1 billion global impressions on social media and reached an overall fan base of over 3 million on its Facebook page, according to an official release issued in December 2014.

The initiative has been highlighted at key international events. The Make in India program was the key message on *Brand India* at the Annual Meeting of the World Economic Forum at Davos 2015. The India Lounge, set up by the India Brand Equity Foundation (IBEF) was inspired by the *Make in India* program. IBEF backed it with a strategic communications campaign to create a brand resonance. *Make in India* is also the theme for India's participation as Partner Country at Hannover Messe 2015 scheduled to be held from April 13-17, 2015.

**Policies of Make In India:**

- 49% FDI under automatic route permitted in Insurance and Pension sectors
- Foreign investment up to 49% in defence 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 defence 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 Defence, 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), Pisciculture, Aquaculture and Apiculture has been waived off.

**New Initiatives:**

- Population of 1.31 billion out of which 767 million falls in the age group of 15-64 age group, and also set to become the youngest country with average age of 29 years by 2025
- 2<sup>nd</sup> largest Internet users base with 462 million Internet users.
- India has demonstrable capability to reach near 100% literacy level by 2025
- Considerable Upward mobility among all sections, more 150 million will be added to middle class by 2025 which will create Huge consumer market base of US\$ 3.6 trillion by 2020 (BCG Report)
- 3<sup>rd</sup> largest economy in the world with size of US\$ 8.6 trillion by purchasing power parity (PPP) and is expected to rise to US\$ 20 trillion in size by 2025
- Fastest growing economy in the world with the rate of 7.6% in 2015-16
- India has an immediate investment opportunity of \$1 trillion (Economic Times)

- India enjoys stable/positive ratings from major credit rating agencies around the globe and has a total foreign exchange reserves of US\$ 371 billion as on 30th Sep 16
- 2<sup>nd</sup> largest Railway Network in the world, used by 23 million travelers every day
- 2<sup>nd</sup> largest Road Network in the world stretching 3.3 million km
- 12 major ports, 200 notified minor and intermediate ports

### **New Infrastructure:**

Drive economic growth and improve the quality of life of citizens by enabling industrial and urban infrastructure development

### **Industrialization and Urbanization**

1. Industrial Corridors and 21 new nodal Industrial Cities to be developed:
  - Delhi-Mumbai Industrial Corridor (DMIC)
  - Chennai-Bengaluru Industrial Corridor (CBIC)
  - Bengaluru-Mumbai Economic Corridor (BMEC)
  - Vizag-Chennai Industrial Corridor (VCIC)
  - Amritsar Kolkata Industrial Corridor (AKIC)

These 21 new nodal cities will be having advantages like; Large land parcels, Planned communities, ICT enabled infrastructure, Sustainable living, Excellent connectivity- Road, Rail etc.

Delhi-Mumbai Industrial Corridor is a mega infra-structure project of USD 100 billion with financial and technical aids from Japan, covering an overall length of 1,483 km. Dedicated Freight Corridor (DFC) of 1504 km as the backbone, DMIC will intersect 7 states namely Delhi, Uttar Pradesh, Haryana, Rajasthan, Madhya Pradesh, Gujarat and Maharashtra

2. Doubling of Network of Roads by 2020 and Construction of 15,000 km new roads by 2017 is targeted under various projects
3. Railway projects such as Setting up of New Railway Stations, Modernisation of Rolling stock, High Speed Railways, Port Mine connectivity etc. have been initiated for Modernising and better connectivity of Indian Railways.
4. Eastern Dedicated Freight Corridor of 1840 km length and Western Dedicated Freight Corridor of 1504 km length is under construction as well as many projects are under planning stage.
5. Sagar Mala project is started by the Govt. of India to modernize India's Ports and Inland waterways so that port-led development can be augmented and coastlines can be developed to contribute in India's growth, providing a project outlay of US\$ 10 billion
6. The Smart Cities Mission having a project outlay of US\$ 7.69 billion is progressing, with Special Purpose Vehicles for 19 cities already set up.
7. Aviation industry with target of becoming 3<sup>rd</sup> largest by 2030 and to cater international and domestic traffic.

### **New Design, Innovation and R&D**

Investment in innovation and R&D offers large payoffs in terms of economic growth and competitiveness in global economy

1. 3<sup>rd</sup> largest tech driven Start-up ecosystem globally and Tech Startups in India are expected to reach 11,500 in 2020 from 4,300 in 2015
2. "Start-up India" initiative was launched aiming at fostering entrepreneurship and promoting innovation by creating an ecosystem that is conducive for growth of Start-ups.
3. Intellectual Property Rights Policy launched in May 2016 is having salient features:
  - Strong TRIPS compliant policy framework, Ease of Access using World-class IT enabled patent offices
  - Internationally acclaimed systems for International Searching and Preliminary Examination of patent applications
  - Augmentation of Manpower: 721 additional technically competent Patent Examiners appointed
  - Time for examination of patents to come down to 18 months from 7 years by March, 2018
  - Time for examination of trademarks to come down to 1 month from 13 months by March, 2017

### **New Process**

#### **Ease of Doing Business**

Improved business processes and procedures open up new avenues of opportunities and create confidence among entrepreneurs as a result of which India moved up 12 places in the World Bank's Doing Business ranking 2016 released in October, 2015

- Incorporation of a company reduced to 1 day instead of 10 days

- Power connection provided within a mandated time frame of 15 days instead of 180 days
- No. of documents for exports and imports reduced from 11 to 3
- Validity of industrial license extended to 7 years from 3 years
- Bankruptcy Code 2015 – New bankruptcy law, providing for simple and time-bound insolvency process to be operational by 2017
- Goods and Services Tax – Single tax framework by April, 2017
- Permanent Residency Status for foreign investors for 10 years

#### **Other Reforms**

1. Online portals for Employees State Insurance Corporation (ESIC) and Employees Provident Fund Organization (EPFO) for
  - Real-time registration
  - Payments through 56 accredited banks
  - Online application process for environmental and forest clearances
2. Department of Commerce, Government of India has launched Indian Trade Portal. Important feature of this portal is to be a single point for relevant information on measures other than tariff called the non-tariff measures like standards, technical regulations, conformity assessment procedures, sanitary and Phytosanitary measures which may affect trade adversely.
3. An Investor Facilitation Cell has been created in 'Invest India' to guide, assist and handhold investors during the entire life-cycle of the business.
4. The Department of Industrial Policy and Promotion has also set up Japan Plus and Korea Plus. They are special management teams to facilitate and fast track investment proposals from Japan and South Korea respectively.

#### **Major FDI Reforms**

FDI stimulates country's economic development and creates more conducive environment for the industry to grow

1. **Defence:** Up to 49% under automatic route and above 49% through Government route
2. **Civil Aviation:** 100% FDI under automatic route in Greenfield Projects and 74% FDI in Brownfield Projects under automatic route beyond 74% for Brownfield Projects is under government route.
3. **Broadcasting:** New sectoral caps and entry routes are as under:
  - Broadcasting Carriage Services & down-linking of news channels: 100% FDI
  - Cable Networks: 100% FDI and in News channels: 49% FDI
4. **Banking:** FDI up to 74% with 49% under automatic route rest through government route
5. **Railways:** 100% FDI under automatic route permitted in construction, operation and maintenance of Rail Infrastructure projects
6. **Construction:** 100% FDI through automatic route and Removal of minimum floor area & minimum capital requirement
7. **Pharmaceuticals:** The extant FDI policy on pharmaceutical sector provides for 100% FDI under automatic route in Greenfield pharma and FDI up to 74% under automatic route and 100% under government approval in Brownfield pharma.
8. **Plantation:** Certain plantation activities namely; coffee, rubber, cardamom, palm oil tree and olive oil tree plantations has opened for 100% foreign investment under automatic route.
9. **Telecom:** FDI up to 100% with 49% under automatic route
10. **Insurance & Pension:** FDI Policy has been reviewed to increase the sectoral cap of foreign investment from 26% to 49% with foreign investment up to 26% to be under automatic route.
11. **Medical Devices:** 100% FDI under automatic route for manufacturing of medical devices has been permitted.
12. **E-Commerce:** 100% FDI in B2B e-commerce, Single brand retail trading entity permitted for B2C e-commerce and e-commerce food retailing
13. **Retail:** 100% FDI and 49% under automatic route is allowed. In case of 'state-of-art' and 'cutting-edge technology' sourcing norms can be relaxed subject to Government approval. 100% FDI is now permitted under automatic route in Duty Free Shops located and operated in the Customs bonded areas.

#### **National Manufacturing Sector**

##### **Vision**

- An increase in manufacturing sector growth to 12-14% per annum over the medium term.

- An increase in the share of manufacturing in the country's Gross Domestic Product from 16% to 25% by 2022.
- To create 100 million additional jobs by 2022 in manufacturing sector.
- Creation of appropriate skill sets among rural migrants and the urban poor for inclusive growth.
- An increase in domestic value addition and technological depth in manufacturing.
- Enhancing the global competitiveness of the Indian manufacturing sector.
- Ensuring sustainability of growth, particularly with regard to environment.

**Strengths:**

- India has already marked its presence as one of the fastest growing economies of the world.
- The country is expected to rank amongst the world's top three growth economies and amongst the top five manufacturing destinations by 2020.
- Favourable demographic dividends for the next 2-3 decades. Sustained availability of quality workforce.
- The cost of manpower is relatively low as compared to other countries.
- Strong consumerism in the domestic market.
- Strong technical and engineering capabilities backed by top-notch scientific and technical institutes.
- Well-regulated and stable financial markets open to foreign investors.

**SALIENT FEATURES OF NMF POLICY**

**1. Focus Sectors:**

- Employment-intensive industries like textiles and garments, leather and footwear, gems and jewellery and food processing industries.
- Capital goods industries like machine tools, heavy electrical equipment, heavy transport, earthmoving & mining equipment.
- Industries with strategic significance like aerospace, shipping, IT hardware & electronics, telecommunication equipment, defence equipment and solar energy.
- Industries where India enjoys a competitive advantage such as automobiles, pharmaceuticals & medical equipment.
- Small & medium enterprises.
- Public sector enterprises.

**2. National Investment & Manufacturing Zones (NIMZ):**

- The National Investment and Manufacturing Zones are being conceived as giant industrial greenfield townships to promote world-class manufacturing activities.
- The minimum size is 5000 hectares (50 square kilometres) wherein the processing area has to be at least 30%.
- The central government will be responsible for bearing the cost of master planning, improving/providing external physical infrastructure linkages including rail, road, ports, airports and telecom, providing institutional infrastructure for productivity, skill development and the promotion of domestic and global investments.
- The identification of land will be undertaken by state governments. State governments will be responsible for water requirement, power connectivity, physical infrastructure, utility linkages, environmental impact studies and bearing the cost of resettlement and rehabilitation packages for the owners of acquired land.
- The state government will also play a role in its acquisition if necessary.
- In government, purchase preferences will be given to units in the national investment and manufacturing zones.
- For financial year 2016-17, USD 0.515 million has been earmarked under the scheme for implementation of National Manufacturing Policy for 'Master planning of NIMZs and Technology acquisition & development fund.
- National Investment and Manufacturing Zones Identified

**Special Benefits to SMEs:**

- Rollover relief from long term capital gains tax to individuals on sale of residential property in case of re-investment of sale consideration.
- A tax pass-through status for venture capital funds with a focus on SMEs in the manufacturing sector.
- Liberalization of RBI norms for banks investing in venture capital funds with a focus on SMEs, in consultation with RBI.
- The liberalization of IRDA guidelines to provide for investments by insurance companies.
- The inclusion of lending to SMEs in manufacturing as part of priority sector lending.
- Easier access to bank finance through appropriate bank lending norms.
- The setting up of a stock exchange for SMEs.
- Service entity for the collection and payment of statutory dues of SMEs.

**Government Procurement:**

- The policy will also consider use of public procurement with stipulation of local value addition in specified sectors. These include areas of critical technologies such as solar energy equipment, electronic hardware, fuel efficient transport equipment, IT based security systems, power, roads & highways, railways, aviation and ports.
- 3. **Industrial Training & Skill Upgradation Measures:**  
Skill-building among large numbers of a minimally educated workforce.  
Relevant vocational and skill training through establishment of Industrial Training Institute (ITI) in Public Private Partnerships (PPP) mode.  
Specialized skill development through the establishment of polytechnics.  
Establishment of instructors' training centre in each NIMZ.

- 4. **Exit Mechanism:**  
It envisages an alternate exit mechanism through job loss policy and a sinking fund or a combination of both.

**Industrial Corridor:**

- Five industrial corridor projects across india have been identified, planned and launched by the government of india. These corridors are spread across india, with strategic focus on inclusive development to provide an impetus to industrialization and planned urbanization. In each of these corridors, manufacturing will be a key economic driver and these projects are seen as critical in raising the share of manufacturing in india's gross domestic product (gdp) from the current levels of 15% to 25% by 2025.
- Smart industrial cities are being developed along the corridors. These cities are being developed to integrate the new workforce that will power manufacturing and will lead to planned urbanization.

**Fastest Growing Economy**

- One of the fastest growing economies in the world, India has sustained recent global downturn and also emerged as one of the leading nations in terms of GDP growth rate and FDI inflows
- India is likely to grow at consistently higher rates (>7%) and retain its position as one of the fastest growing economies till 2020 (Source: International Monetary Fund)
- In recent years, India has emerged as one of the most attractive destinations not only for investments but also for doing business, evident by its significant jump by 12 places in Ease of Doing Business rankings between 2014 and 2015 (Source: Ease of Doing Business, World Bank)
- India accounted for 1.7% of global merchandise exports in 2014, compared to 0.8% in early 2000. Exports have increased at a Compound Annual Growth Rate of 11.6% in FY 2010 to USD 310 billion in FY 2015 (Source: EXIM Bank Catalyzing India's trade and investment, July 1, 2015; WTO International Trade Statistics 2015)
- Foreign exchange reserves have been at a comfortable level over recent years. Currently, India's reserves stand at USD 371.279 billion (Source: Reserve Bank of India as on 9<sup>th</sup> September, 2016)
- India ranks amongst the top 10 FDI destinations globally - surpassing USD 50 billion in FY 2015-16. India has shown a growth of 46% in FDI equity inflow and 37% in overall FDI inflow since the launch of Make in India initiative (Source: Ministry of Commerce, Government of India)
- India's fiscal deficit stood at 3.9 % of GDP (USD 81.85 billion) in FY 2015-16 and envisaged to come down to 3.5% of GDP by the end of FY 2016-17 (Source: <https://data.gov.in/>)

**Demographic Advantage**

- With 356 million 10-24 year-olds, India has the world's largest youth population (Source: UNFPA, The Power of 1.8 billion, 2014)
- The proportion of working age population in India is likely to reach more than 64% by 2021, with a large number of young persons in the 20-35 age group (Source: Economic Survey 2014)
- The average age of 125 billion persons will be 29 years by 2020 (Source: Economic Survey, 2014)
- If India continues its recent growth trend, average household incomes will triple over the next two decades and it will become the world's fifth largest consumer economy by the year 2025 (Source: The Bird of Gold, McKinsey Report)

- India is expected to be the largest supplier of university graduates in the world by 2020 (Source: Morgan Stanley Research)
- India has 712 university level institutions, 36,671 colleges along with 11,445 standalone institutions (Source: Educational Statistics at a Glance 2014, Ministry of Human Resources Development)

#### **Favourable Policies**

- Major FDI policy reforms have been made in a number of sectors, such as defense, construction development, pensions, broadcasting, pharmaceutical and civil aviation
- Foreign investors can invest in India either on their own or as a joint venture, as may be required in a few sectors
- Barring a few reserved sectors, 100% FDI is allowed through the automatic route in several sectors, without the need of government approval, namely Automobile, Food Processing, Construction etc.
- In the Union budget 2016-17, the government has emphasized the need to increase manufacturing as a percentage of GDP
- The Central and State governments have sector specific policies, incentives and subsidies to promote manufacturing
- Increased allocation in the budget to improve infrastructure, which is critical in facilitating future growth

#### **Conclusion:**

From the above Topic It is very cleared FDI and is the major Helping Tool for Make in India, however Indians should be more aware in doing FDI. By the way we will Improve our GDP also.

#### References:

- <https://www.ibef.org/economy/foreign-direct-investment.aspx>
- <https://www.ibef.org/economy/make-in-india>
- <http://www.makeinindia.com/home>