

FDI in Make in India: Transforming the Manufacturing Landscape

Dewangi Sharma

May 10, 2024

HOME > TEAM INDIA BLOGS > FDI IN MAKE IN INDIA: TRANSFORMIN...



As India strives to become a \$35 Tn economy, the role of the manufacturing sector is pivotal in driving the nation forward. A robust manufacturing industry is essential for boosting economic growth by contributing to the GDP, strengthening infrastructure, increasing imports, and creating job opportunities.

From fiscal year 2006 to 2012, India's manufacturing sector GDP grew by an average of 9.5% per year. However, over the following six years, growth slowed to 7.4% because of challenges like project delays due to cumbersome regulations and red tape, ill-targeted subsidies, low manufacturing base, low-value addition in manufacturing, and the presence of a large informal sector.

To revitalise the manufacturing sector, the **Make in India** initiative was launched in September 2014 to foster innovation, and position India as a global manufacturing hub by attracting domestic and foreign investment, building best-in-class manufacturing infrastructure, enhancing skill development, protecting intellectual property, and streamlining regulatory processes to create a conducive environment for businesses to thrive.

Foreign Direct Investment Over the Years

Due to the sustained efforts of the government, during 2014-2023, Foreign Direct Investment equity inflow in the manufacturing sector increased by 55% to reach \$148.97 Bn compared to \$96 Bn in the previous nine years (2005-2014).

This achievement is due to the various policy initiatives taken by the government over the years. Under the existing FDI policy, nearly all sectors allow for 100% FDI, except for certain prohibited sectors. The defence industry allows 74% FDI under automatic route and 100% under the government route. For the broadcasting sector, FDI limits vary, differing between print and digital media. While the automatic route requires no approval from the Government of India for either non-resident or Indian companies, the government route necessitates prior approval from the Government of India before investment can proceed.

The government introduced several other measures, such as the **Goods and Services Tax (GST)**, to streamline indirect taxation. Before GST, manufacturers faced challenges with multiple tax filings and assessments by different tax authorities. The introduction of GST streamlined indirect taxation and automated tax compliances, easing the burden for businesses. Additionally, reductions in corporate taxes, along with simplified construction permits and the abolition of archaic laws were implemented to improve the ease of doing business. Coupled with FDI policy reforms aimed at attracting foreign capital, these measures collectively aimed to bolster the business environment and stimulate economic growth.

At the global level as well, India also collaborated with other countries. To further propel innovation in manufacturing sectors, in 2015, India and Japan announced a \$12 Bn '**Japan-India Make-in-India Special Finance Facility**' fund managed by the Nippon Export and Investment Insurance (NEXI) and Japan Bank for International Cooperation (JBIC). The fund "aims to promote direct investment of Japanese companies and trade from Japan to India, to support their business activities with counterparts in India, including the development of necessary infrastructure, and to help materialise Make-in-India policy of the Government of India." Between 2000 and June 2023, Japan invested about \$39.94 Bn in India, ranking fifth in FDI sources. Japanese investments mainly went into sectors like automobiles, electrical equipment, telecommunications, chemicals, finance (insurance), and pharmaceuticals.

Similarly, '**Make in India Mittelstand (MIIM)**,' a collaboration between India and Germany, focuses on driving innovation and enhancing economic cooperation by encouraging small and medium-sized German companies to invest and manufacture in India. Since its inception in September 2015, as of August 2021, the MIIM program has supported more than 151 German Mittelstand companies, resulting in a total declared investment exceeding €1.4 Bn. A majority of these investments came in the automotive, renewables, construction, consumer goods, electronics and electricals, chemical, waste/ water management sectors.

These liberalised policies, coupled with efforts to improve the ease of doing business, have positioned India as an attractive destination for foreign investors.

India's progress has been recognised internationally, with the World Bank's 2019 Ease of Doing Business report acknowledging a significant jump to a rank of 63 among 190 countries.

Current Landscape

The Government has also introduced the Production Linked Incentive (PLI) Scheme, which has significantly boosted production, employment, economic growth, and exports in India. Under this scheme, companies are incentivised to promote domestic production, thereby enhancing India's manufacturing competitiveness. PLI scheme covers 14 key sectors with an incentive outlay of about \$26 Bn. Sectors like Drugs and Pharmaceuticals (+46%), Food Processing Industries (+26%), and Medical Appliances (+91%) witnessed increased FDI inflows. The PLI scheme has prompted major smartphone companies like Foxconn, Wistron and Pegatron to shift suppliers to India, resulting in the manufacture of top-end phones in the country.

In line with the Make in India initiative, several Indian states have also launched their localised initiatives like Tamil Nadu Global Investors Meet, Make in Odisha, Vibrant Gujarat, Happening Haryana, and Magnetic Maharashtra.

According to the parliamentary data, from October 2019 to December 2023, the total foreign investments in the manufacturing sector, as reported by the States through FDI equity inflow, were \$20.8 Bn. The top five states receiving the maximum investment are Maharashtra (29.6%), Karnataka (22.6%), Gujarat (16.3%), Delhi (13.5%), and Tamil Nadu (4.7%).

Conclusion

The Make in India initiative has been instrumental in transforming India's manufacturing landscape and attracting significant investments to the country through a series of reforms geared towards improving the ease of doing business, liberalising FDI policy and promoting domestic manufacturing. The COVID-19 pandemic also presented an opportunity for India to transform its economic landscape by leveraging the disruption caused by the crisis into a growth opportunity. As of 2023, the manufacturing sector accounted for 17% of the GDP and provided employment to more than 27.3 Mn individuals in India. The government plans to increase manufacturing's share to 25% of the economy by 2025.

India has emerged as an attractive destination for foreign investors. The success of the Make in India policy is evident from the substantial increase in FDI equity inflows in the manufacturing sector and increased production of high-value goods.

India's continued focus on innovation, technology adoption, and skill development will be crucial for sustaining the momentum in the manufacturing sector. Initiatives like the Production-Linked Incentive (PLI) scheme and ongoing reforms to improve infrastructure and regulatory environment will play a key role in enhancing India's competitiveness on the global stage.