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MAKE IN INDIA A BOON OR A BANE FOR FLOW OF FDI

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ABSTRACT

India being a developing nation is attracting many investors to increase its production capacity and to attain economic self-sufficiency. Foreign Direct Investment flows in the form of capital, technology and human resources (skills) which plays a pivotal role in the global economy. The Indian Government's 'Make in India' initiative is to make India a manufacturing hub and thereby to reduce import from other countries. Exploiting this opportunity, many MNCs are investing in India. But, this initiative has affected the local producers and investors because they cannot compete with MNCs which are adopting advanced technology and skilled human resource. In this scenario, the question is whether making in India initiative is really helping India to grow globally. In order to compete in the global market, we should not neglect the interest of our local producers and investors. To encourage the flow of FDI, Make in India is a good initiative but as we know everything will have two faces, this initiative should not give significance to foreign investment at the cost of our own people. The research paper throws light on the impact of making in India initiative on the free flow of FDI and merits and demerits of FDI on Indian economy.

KEYWORDS: *FDI, Make in India, Inclusive Growth, Economyand Poverty*

INTRODUCTION

> 'We have the knowledge, resources, and capabilities to make global capitalism work in a more inclusive and socially responsible manner while retaining, indeed enhancing its economic benefits.'
>
> John H. Dunning
> Father of International Business

'Make in India' is a programme launched by Government of India encouraging MNCs and India companies to manufacture products in India. The programme is launched by Sri NarendraModi, Prime Minister, Government of India on 25th September 2014 to encourage foreign investments in manufacturing sectors and to promote Swadeshi Movement once again in India. The purpose of 'Make in India' initiative is to make India a top destination for foreign investment at a global level.The objectives of this initiative programme include making India a manufacturing hub, creating job opportunities, technology transfer, encouraging the flow of foreign investments, to increase export trade, supplement importing and skill enhancement which helps in inclusive growth of India and reduction of poverty. With these objectives, FDI is allowed in 25 sectors with increased cap in defence upto 49%, etc. After the initiation of 'Make in India' programme, the flow of FDI has increased to the US $ 45,682 million from October 2014 to December 2015.[1]Along with Central Government, the state governments are also providing powerful infrastructure facility and stable FDI policies to harness FDI in India which is very beneficial to investors.

Promoting inclusive growth entails comprehensive growth and pro-poor growth which leads to a reduction of poverty. The inclusive growth means more participation of workers and impartial allocation of resources and distribution wealth. A solution to reduce poverty is to create more employment opportunities by making India amanufacturing hub. To achieve this goal, the government of India has opened its economy for FDI. Hence, India received $50 billion FDI in 2015-16 which is a highest in the Indian economy through Make-in-India initiative. 100% FDI in automatic route in e-commerce & retail business is accepted, but it is not permitted in an inventory-based model of e-commerce. 100% FDI in B2B e-commerce is allowed but not in B2C. Market-based model of e-commerce means providing an IT platform by an e-commerce entity on a digital and electronic network to act as a facilitator. Inventory based model e-commerce means e-commerce activity owned by the e-commerce entity and is sold to consumers directly according to government guidelines. Another face of inclusive growth which allows people tocontribute and take benefits from the economy. To prove in this line FDI is allowed in public participation projects which are allowed in the public infrastructure sector

India's Efforts to Attract FDI

India is an emerging economy in the world and making all efforts to strengthen its ties with other states to progress in various fields such as economic, culture, technology, intellectual property, R&D and many more. To compete in the global economy and to fulfill economic objectives, India needs sufficient capital which can be met by FDI. India has taken various measures such as reliable foreign policy, signing BITs with investors, liberal investment policy, launching investment programmes, etc to attract FDI into its economy and the same are discussed below by the researcher.

Indian Foreign Policy

The Indian government under the leadership of Mr.NarendraModi, Prime Minister gave significance to review Indian foreign policy to attract more investments across the globe. Mr.NarendraModi visited 18 countries in 57 days to develop a good relationship with other countries and the same had a significant impact on economic development which opened gates for new business. The aim of the business visit is to increase theflow of FDI which is estimated at around $28.8 billion and transfer of technology.[2] The aim behind all this initiative is to make India a reliable and favorable destination for foreign investments. Mr.NarendraModi had made a good start towards achieving the aim within one year of resuming the office as a Prime Minister of India which is really a commendable start for economic development of India. India entered into investment & trade agreements to strengthen its economic relationship with China, ASEAN states, SAARC states, UK and other states.

States needs to adjust their domestic laws to compete in integrating the world economy and increasing FDI flows have encouraged many states to enact new competition laws. Economic incentives and promotion strategies to be adopted by host states to attract FDI. The host states along with liberalized policy must also have upgraded technology and skill, raise local procurement, secure more re-investment of profits, better protection of environment and consumers. These

[1]Press Information Bureau, Ministry of Commerce & Industry, Government of India, 9/3/2016, @5.29pm, p1
[2]'The Hindu', Friday, 29/05/2015,p10

factors will ensure more benefits from FDI performance. The liberalized policies must be supported by Anti-Competition laws which will prevent foreign affiliates from crowding out viable local firms and prevent MNCs that upset sensitiveness. Recognize the nexus between investment and competition policy, increase in FDI makes to enact new competition policy. Host state laws must also concentrate on performance requirements, incentives, transfer of technology policies, competition policies because it will affect the development objectives. States must incorporate provisions to impose CSR on investors and instruct them to follow domestic laws without violating them. Host states must take action against tax avoidance to support domestic resource mobilization to encourage productive FDI for sustainable development. The developing states often find difficulties to deal with tax avoidance due to lack of technical expertise. Host state must impose restriction investors to stop disinvestment of FDI projects. In 2014, due to the process of disinvestment FDI flows into developed economies declined by 28% to $ 99 billion andflow of FDI into the US was declined to $92 billion due to single large scale disinvestment. The disinvestment crises also had an impact on the flow of FDI into Europewhere FDI fell by 11% to $89 billion which wasequal to 1/3 of FDI flow in 2007[3] (Tata disinvestments in UK Iron & Steel Industry). The host state laws must maintain the balance between the interest of investors & domestic players, states must have uniform investments code as per which sectors will be commonly opened for FDI in all states. To regulate FDI performance, the investment incentives shall be linked with SDGs to make policies more effective and reduce market failures. Governments should carefully assess their incentive strategies and strengthening their evaluation and monitoring process. The host state must generate nexus between FDI policies and Industrial policies to increase international co-operation.FDI has a positive effect on the development of the economy by creating job opportunities, improving life standards and consumer becomes king. On the other hand, FDI has a negative impact on the environment, health, domestic market, labor rights, human rights and public interest at large. Investors while seeking protection should know that they have acertain responsibility towards host state. In order to protect the interest of all the states, there is a necessity to reform investment treaty strategy, in the reform process all the stakeholders must give an opportunity to place their opinion, political analysis, technical co-operation and there must be a platform for the exchange of experiences and consensus building.

To attract more FDI the investments incentives must be closely aligned with sustainable development goals. The UNCTAD in World Investment Report 2013 suggested that the set of sustainable development goals for 2015-2030 must concentrate on poverty reduction, food security, human health, education, climate change mitigation, and other objectives within the purview of economic, social and environmental issues. High product prices and increase profits attract more FDI but it is not feasible in developing states like India. At present in spite of liberal policies flow of FDI is reduced because of less cross-border M&A, a decline in local demand, the decline in expected return in projects related to natural resources, stop of round-tripping of FDI, a small size of the domestic market, limited natural and human resources and global financial crisis. States must facilitate for fast communication of information related to FDI and there must be a fair distribution of profits between host and home state.

Significance of FDI in Economic Development of Developing or Third World Countries

Foreign direct investment plays a very important role in long term economic development of a state not only as a source of capital but also for enhancing the competitiveness of the domestic economy through technology transfer. FDI helps in strengthening infrastructure, raising productivity and also plays an important role in enhancing export and

[3]World Investment Report 2015, Overview, p5

maintains the balance of trade.FDI facilitate the exploitation of natural resources.

FDI plays a multi-dimensional role in the overall development of the host states, it generates benefits through bringing the non-debt foreign capital resources and technological upgrading efficiency effects. FDI along with positive effect also has negative effects but positive effect always offset the negatives and provides economic benefits to host states.[4]

There is always a question in our mind, is FDI inevitable for economic development of developing state like India? There are many reasons why India needs FDI for its economic development. The reason for requirement FDI includes increasing sales and profits, to enter the international market, to reduce costs, to protect the domestic market and to acquire new & upgraded technology & managerial know-how.

Mr.SupachaiPanitchpakdi[5] in his key message in World Investment Report 2011 said, 'the Global FDI inflows rose 16% in 2011, surpassing the 2005-07 pre-crisis level for the first time, despite the continuing effects ofglobal financial and economic crisis during 2008-2009 and the ongoing sovereign debt crisis,[6] this situation was created against a background of higher profits of MNCs and relatively high economic growth in developing states during the same year. Aresurgence in economic uncertainty and the possibility of lower rates in major emerging markets risks undercutting these favorable trends in 2012. UNCTAD predicts that FDI may slow down in future years'.

UNCTAD formulated a Comprehensive Investment Policy Framework for Sustainable Development (IPFSD) in 2011, which consist a) core principle for investment policymaking, b) guidelines for national investment policies and iii) options for designand use of IIAs. The policy will serve as the basis for states in framing national investment policies, which provide a common language for discussion and co-operation on national and international investment policies.

The host states before allowing FDI into their states they have to think about two questions 1) what is the role of FDI in its economic development?

How to Frame Domestic Laws to Regulate FDI?[7]

The host states have recognized the profit goals of MNCs which will lead to a common advantage for both the states. The most popular sectors in which FDI is allowed in host states are infrastructures, insurance, education, health care, transportation, energy, IT,BT, manufacturing, etc. When MNCs enters into the host state with objectives of making profits, conversion of capital & expanding their markets, on the other sidehost state due to shortage of public funds are relied on FDI which is a debt-free capital and plays a key role in development of its economy and achieve their goals such as reduction of poverty, improvement of health care, better employment opportunities which will stimulate the economic growth. To meet the above objectives, FDI rules and regulations play a key role here and these laws must be in a liberalized form so as to promote and attract more FDI into the host state's economy. When we say laws regulating FDI there are two sets of laws such as domestic laws and international laws dealing with FDI. At the domestic level, there are two types 1) dealing with registration and restrictions on MNCs with FDI. Under this category of law, the host state

[4]Id 2,p24
[5]Secretary- General of UNCTAD 2011
[6]UNCTAD releases 'World Investment Report' every financial year
[7]Id 3,p27

exercise national control and also some time sovereign power[8]on them which is a regulatory mechanism and 2) secondly the rules which promote and protect FDI which are more liberalized such as foreign policies made by Ministry of Economy Affairs, Foreign Investment Promotion Board (FIPB), Department of Industrial Policy & Promotion (DIPP), etc which are explained in sixth chapter.[9]

When we look at international laws regulating FDI in the current era includes BITs, RIAs, FTAs which are the replica of international norms for promoting and protecting FDI. The terms and conditions included in BITs shall be in such a manner that it will be beneficial to both host and home states. The host states authorities while framing FDI policies have to consider the following issues:[10]

- Sectors in which FDI is to be allowed.
- Special agencies dealing with FDI.
- Effect of FDI on the environment, labor force, domestic market, tax, IPR, technology.
- Entry requirements, forms of FDI including Greenfield investment, Brownfield investment and Joint Venture.
- Regulations deals with the transfer of profits, expropriation, and compensation.
- Treatment of foreign entities on par with domestic entities and incentives provided to them.

All these factors should be studied in detail by the government of the host state before framing FDI policies and adopting BIT provisions into domestic rules and regulations. While making FDI policies, the government must consider factors like environmental standard, economic factors, social factors, labour issues, etc because once foreign entity enters into host states, will have its impact on the domestic economy.

Mr.Montek Sign Ahluwalia, Indian Economist said that FDI is not a threat to small shops, Retail Sector is the second biggest employment creator and it has nearly created 44million jobs in India and has also said that quality of jobs in traditional retail is low and the modern retail sector improves quality of labor. But as per ‘The BusinessLine’ newspaper, which pointed out that if Malls comes in India, 8 million people will lose their jobs. The US Census Bureauinformation found that the growth of ‘Hypermarket’ hasa negative impact on small stores in the US market. The entry of FDI in agricultural sector may have benefits like better back-end infrastructure& cold storage chain, Government can generate funds, jobs and improve the standard of life by stimulating the economy. Consumers will get more choices and goods will be available at affordable price, farmerswill get healthy returns and less wastage of agricultural goods because of the availability of cold storage facility by an entry of FDI.

In the recent tome Indian economy has entered a new phase where it has achieved a high rate of expansion including inclusive growth with help of World Bank, Asian Development Bank. A government of India has introduced many schemes such as JawaharRozgarYojna, Rural Housing Scheme, Swarnjayanti Gram SwarozgarYojna and many more to help youth generation to seek employment. Many private players are also contributing to inclusive growth by adopting many innovative projects and schemes. To conclude, inclusive growth of India is concentrating more on rural development

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[8]GATT provisions
[9]Id 3,p28
[10]Id 3,p29

because in India the majority population is residing in India especially the youth. The purposes of inclusive growth can be achieved by allowing FDI into the Indian economy and create more jobs and develop industries, agriculture, and various sectors.

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