

Role of Foreign Direct Investments in Indian Manufacturing Sector

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Abstract

In India, although the agriculture is the main occupation, the development of the country is depended upon the industrialisation. In the present global competition, every industry needs to search for the new ventures in order to be in the race. Manufacturing is emerging as an integral pillar in the country's economic growth. Foreign Direct Investment is one of the main sources to supplement domestic capital wherein individuals, enterprises and corporates outside the country invest in India. In the last ten years, there is a significant increase in Foreign Direct Investment into the country in various forms and into various sectors of business. In the present study, the profile of manufacturing sector, FDI in manufacturing sector and the relationship between FDI in manufacturing sector and its contribution to the national GDP have been focussed. Finally, the study observes that FDI in manufacturing sector 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.

Keywords: GDP, FDI, economy, manufacturing

1. Introduction

In India, although the agriculture is the main occupation, the development of the country is depended upon the industrialisation. In the present global competition, every industry needs to search for the new ventures in order to be in the race. Indian industries were suffering from lack of finance, non-availability of technology and low or no productivity. However, the globalisation has provided several platforms of opportunities to the Indian industries to develop. In order to speed-up the national economic growth through the manufacturing sector, GOI has initiated the concept of liberalising the Foreign Direct Investment. In addition to this, government has liberalised several rules and regulation to attract the foreign investors to establish their manufacturing units in India. With this background the researcher has felt that there is a need of study on the role of FDI in Indian manufacturing sector.

2. Objectives of the Study

The overall objective of the study is to analyses the trends of FDI and role of foreign originations in Indian manufacturing sectors. However, in order to achieve the overall objectives,

some specific objectives have been framed. They are as follows.

- To study the role of manufacturing industries in India
- To study the FDI in manufacturing sector and its trend
- To study the relationship between FDI and GDP of manufacturing sector

In order to attain the objectives of the study, the whole manufacturing sector of India is treated as a unit and the required secondary information has been collected from books, published reports, newspapers, journals and websites. The analytical result of the study has been presented in tabular form with the help of percentage and correlation technique.

3. Role of Manufacturing Industries in India

Manufacturing sector is very essential for the development of any economy in terms of GDP, foreign exchange and employment. In India, the contribution of manufacturing sector to the GDP is significant. The contribution of Indian manufacturing sector to the GDP from 2000-2021 to 2012-13 at 2004-05 prices has been presented in the Table No. 1.

Table 1: Contribution of Manufacturing Sectors to the GDP at 2004-05 prices

Year	GDP (In Cr. Rs.)	Manufacture (In Cr. Rs.)	% of contribution	Growth (%)
2000-01	2,342,774	363,163	16	-
2001-02	2,472,052	371,408	15	2.27
2002-03	2,570,690	396,912	15	6.87
2003-04	2,777,813	422,062	15	6.34
2004-05	2,971,464	453,225	15	7.38
2005-06	3,253,073	499,020	15	10.10

2006-07	3,564,364	570,458	16	14.32
2007-08	3,896,636	629,073	16	10.28
2008-09	4,158,676	656,302	16	4.33
2009-10	4,516,071	730,435	16	11.30
2010-11	4,937,006	801,476	16	9.73
2011-12	5,243,582	823,023	16	2.69
2012-13	5,503,476	838,541	15	1.89

Source: Compiled from www.data.gov.in

Table No. 1 clearly reveals that the GDP contribution of the manufacturing sectors has been varying between 15 to 16 percent. The highest growth the contribution of manufacturing sector to the GDP is recorded in 2006-07 (14.32 percent) whereas the lowest growth is recorded in 2012-13 (1.89

percent). It shows increasing trend. The employment generation by different sector including manufacturing sector in 1999-20, 2004-05 and 2009-10 has been presented in the Table No. 2.

Table 2: Employment Generation by Different Sectors

Sectors	1999-2000		2004-05		2009-10	
	Employment (in millions)	%	Employment (in millions)	%	Employment (in millions)	%
Agriculture	237.67	59.90	258.93	56.60	244.85	53.20
Manufacturing	44.05	11.10	55.77	12.19	50.74	11.03
Mining	2.17	0.55	2.64	0.58	2.95	0.64
EGW	1.13	0.28	1.30	0.28	1.25	0.27
Construction	17.54	4.42	26.02	5.69	44.04	9.57
Services	94.20	23.74	112.81	24.66	116.34	25.28
Total	396.76	100.00	457.46	100.00	460.22	100.00

Source: Compiled from www.data.gov.in EGW = Electricity, Gas and Water

It is clear from the Table No. 2 shows that the manufacturing is third main sector in generating employment opportunities after agriculture and service sectors. The share of employment generation by manufacturing sectors falls in between 11.03-12.19%. It is worth mentioning that the agriculture sector dominates in generation of employment opportunities.

4. FDI Contribution in Manufacturing Sector

Indian manufacturing sector has been facing the shortfall of capital for its new venture. Domestic sources are not

sufficient to fulfil the financial need of Indian manufacturing sector. Hence, GOI has allowed FDI in manufacturing sector. The total amount of utilising FDI in manufacturing sector in India has been recorded as 35.70 percent and 39.74 percent against the global figures of 38.84 percent and 44.90 percent in 2012-13 and 2013-14 respectively. The flow of FDI in India in 2010-11, 2011-12, 2012-13 and 2013-14 in different sectors including manufacturing has been presented in the Table No. 3.

Table 3: Flow of FDI in India (US \$ million)

Sector/Industries	2010-11		2011-12		2012-13		2013-14	
	Values	%	Values	%	Values	%	Values	%
Manufacturing	4,793	32.08	9,337	39.78	6,528	35.70	6,381	39.74
Construction	1,599	10.70	2,634	11.22	1,319	7.21	1,276	7.95
Financial Services	1,353	9.06	2,603	11.09	2,760	15.09	1,026	6.39
Real Estate	444	2.97	340	1.45	197	1.08	201	1.25
EEDT	1,338	8.96	1,395	5.94	1,653	9.04	1,284	8.00
Communication	1,228	8.22	1,458	6.21	92	0.50	1,256	7.82
Business Services	569	3.81	1,590	6.77	643	3.52	521	3.25
Computer Services	843	5.64	736	3.14	247	1.35	934	5.82
Hotel & Restaurants	218	1.46	870	3.71	3,129	17.11	361	2.25
Retail & Wholesale	391	2.62	567	2.42	551	3.01	1,139	7.09
Mining	592	3.96	204	0.87	69	0.38	24	0.15
Transportation	344	2.30	410	1.75	213	1.16	311	1.94
Trading	156	1.04	6	0.03	140	0.77	0	0.00
ERD	56	0.37	103	0.44	150	0.82	107	0.67
Others	1015	6.80	1220	5.20	595	3.26	1234	7.68
TOTAL	14,939	100.00	23,473	100.00	18,286	100.00	16,055	100.00

Source: Modified Table 19, RBI annual report 2015

EEDT = Electricity, Energy, Distribution & Transmission, ERD = Education, Research & Development

It is very clear from the Table No. 3 that the manufacturing sector grabbed the major share of FDI in all the four years. In 2010-11 and 2011-12, construction and financial service sectors were stood at second and third position. However, in 2012-13, the hotel and restaurants jumped to the second place. In 2013-14, EEDT sector has secured second place as a result of due importance given by GOI to the generation and supply of power.

5. Relationship between FDI and GDP of Manufacturing Sector

The liberalization of the flow of foreign capital and technology has boosted the Indian manufacturing sector which resulted in the increasing contribution of manufacturing sector to the national GDP. The relationship between the FDI in Indian manufacturing sector and its contribution to the national GDP from 2006-07 to 2013-14 has been presented in the Table No. 4.

Table 4: Relationship between FDI and GDP contribution by Manufacturing Sectors

Year	FDI in Manufacturing sectors (US \$ million)	Manufacturing sector's Contribution to GDP at 2004-05 price (in Rs. Cr)
2006-07	1,641	570,458
2007-08	3,726	629,073
2009-10	5,143	656,302
2010-11	4,793	730,435
2011-12	9,337	801,476
2012-13	6,528	823,023
2013-14	6,381	838,541
Correlation 0.83		

Table No. 4 discloses that high FDI in manufacturing sector is recorded in 2011-12 whereas the highest contribution to the GDP is recorded in 2013-14. For the period of seven years, a high degree of positive correlation (+0.83) can be noticed between the FDI in Indian manufacturing sector and its contribution to the national GDP.

6. Findings and Conclusion

After studying the flow of FDI in Indian manufacturing sector and its contribution to the national GDP, the following major findings are thrown light upon.

- The manufacturing sector contributed 15 to 16 percent to the national GDP annually.
- Manufacturing is the third main sector that generates more employment opportunities after agriculture and service sector.
- Major portion of FDI inflows are grabbed by the Manufacturing sector.
- Trend of utilising the FDI in manufacturing sector in India is low as against the global trend.
- There is a high degree positive correlation between FDI invested in manufacturing sectors and its GDP contribution.

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. The present study helps the future aspirants of research scholars to identify the main determinants of FDI at sectorial level. Finally, the study observes that FDI in manufacturing sector 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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