

Government Support for India's Real Economy

Nikolay S. Revenko

Financial University under the Government of the Russian
Federation
Moscow, Russia

Lilia S. Revenko

MGIMO University
Moscow, Russia

Abstract—The article analyzes the policy of the Indian Government aimed at boosting national production and export by stimulating the FDI inflow attractiveness. To this end, the authorities removed restrictions on national and foreign investments to many sectors of the national economy and improved business climate in country. These measures have resulted in significant FDI inflows in services, computer software and hardware development, telecommunications, automotive, power and chemical industries, construction development, trading, port and railways infrastructure, oil refining and storage. The achievements were negatively affected by the shortage of skilled professionals and brain drain, lack of electricity, underdeveloped infrastructure, complicated legislation, government's unwillingness to resort to drastic measures, increased risk of labor conflicts, and other factors.

Keywords—*Make in India; FDI; economic development; production stimulation; government regulation*

I. INTRODUCTION

Governments of many countries make efforts to boost national economy by stimulating production, developing services and promoting their exports, thereby striving to ensure GDP growth and employment. They implement such a policy by subsidizing production, reducing and abolishing taxes, ensuring a favourable business climate in the country, hedging exports, reining the growth of prices on energy sources, imposing restrictions on the use of foreign products in public procurements, raising import duties.

The choice of these tools depends on the approach taken by the government. In the United States, for example, federal procurements are required to maximize the use of materials produced in the country, including manufactured goods, components of manufactured goods, steel, iron, aluminum, cement and other materials [1]. Chinese authorities allocate substantial financial resources to support ten strategic sectors of national economy and provide tax allowance. India follows its own way to boost the economy. The objectives of this study are to analyze the Indian government's policy in this area and to evaluate the achievements

II. METHODOLOGY

The methodology applied in the article is based on the interdisciplinarity principle and practice-oriented study. Typology of tools applied by the Indian government was used to obtain, process and systematize the available information and to assess the effectiveness of the actions taken.

The general scientific methods used in this study include concretization and abstraction, as well as critical processing of expert assessments and empirical data. The economic

historicism methods were used for a retrospective analysis of the state support evolution for the real sector of the Indian economy.

To study the state support programmes, morphological analysis methods were applied, aimed at systematic reviewing the industry-specific investment, taking into account its sources. This approach has revealed the potential capacity of the existing Indian industrial and transport infrastructure in India and ways to creating a new one in implementing the state-run "Make in India" programme. The advanced methods for classifying and structuring objects made it possible to evaluate industry vectors of foreign direct investment (FDI), as well as to identify the main areas for obtaining effects from the government support for real sector of economy.

III. "MAKE IN INDIA" PROGRAMME: GOALS AND MEASURES TAKEN

The economic liberalization of India, carried out in 1991-2014, was aimed at attracting foreign private investment, gaining access to high tech, increasing the competitiveness of Indian products and consolidating the position of national companies in foreign markets.

The immediate effect of this policy was 12.6 times increase in FDI inward stock from \$16.34 bln in 2000 to \$205.58 bln in 2010 [2]. However, the country's economic growth slowed down at the dawn of the second decade of the 21st century, and it turned out to be the lowest in ten years by 2013 [3]. In addition, the focus of economic policy on upholding the business interests resulted in social inequality aggravation.

This forced the Indian People's Party, which won elections in 2014, to reappraise the country's economic development strategy and to abandon the five-year plans.¹ Prime Minister N. Modi launched in September 2014 the "Make in India" programme aimed at transforming India into a world production and design center. In doing so, he promised to create a world-class infrastructure that India needs to accelerate growth and meet people's vital needs. "We will make our cities and towns habitable, sustainable and smart; and we will make our villages the new engines of economic transformation", the Prime Minister said [4]. According to Mr. Shri Anant Geete, Union Minister of Heavy Industries and Public Enterprises, the programme means the production in India with global quality standards, and, for this purpose, the

¹ The last 12th five-year plan was completed in 2017, and National Institution for Transforming India (NITI Aayog) replaced the Planning Commission dissolved.

country needs “substantial capital and technological investment in India” [5].

The overriding goals set by the “Make in India” programme, coordinated by the Department for Promotion of Industry and Internal Trade in the Ministry of Commerce and Industry², are to raise FDI, increase the share of the industrial sector to 25% by 2025 (it was 16% in 2016) [6], accelerate innovation, ensure intellectual property protection, turn India into an innovative platform [7] and expand employment.

To attract finance resources, the rules for foreign investment in many sectors of the economy were significantly liberalized. 100% automatic route was applied to most industries, including petroleum and natural gas, mining and exploration of metals and non-metal ores, thermal power, renewable energy, highway and railway infrastructure, pharmaceuticals. This route assumes that non-resident or Indian companies do not require any approval from the government to invest. Their stockholding is also not limited in any way. For example, in the railway sector, they are free to invest in the construction, operation and maintenance of high-speed train projects, dedicated freight lines, freight and passenger terminals, signaling systems, coach manufacturing, railways electrification, maintaining facilities [8]. Investments in the insurance, infrastructure companies in the securities market, petroleum refining, pensions and power exchange are also subject to automatic route, but the stockholding cannot exceed 49%.

Investments in the most sensitive sectors of the economy are allowed only under government route, i.e. approval from the public authorities is required prior to investment. In addition, the stockholding is limited for mining and minerals separations of titanium bearing minerals and ores, core investment companies, and satellite establishment and operation (up to 100%), multi-brand retail trading (up to 51%), print media (26–100%), banking and public sector (up to 20%) [9].

In January 2018 the liberalized regime was extended to single brand retail trading, construction development, power exchanges through primary market (up to 100%). Foreign airlines are also permitted to invest in Air India (up to 49% under government route).

To create confidence among investors and improve business processes the government reduced incorporation of companies procedure from 10 days to 1 day and the number of documents for exports/imports from 11 to 3, extended validity of industrial license from 3 years to 7 years, introduced a single tax framework for goods and services. New bankruptcy law providing for time-bound and simple insolvency process became operational. The amendment to the Companies Act has been passed in order to remove requirements of common seal for companies and minimum paid-up capital. Foreign investors can now obtain permanent residency status for 10 years [10].

“Make in India” programme also identified five industrial corridors that constitute smart cities, industrial hubs and world-class infrastructure, including ports with state-of-the-art cargo handling equipment, high-speed railways and roads,

modern airports, logistic parks, transshipping hubs, special economic regions, knowledge parks.

The authorities pay much attention to creating a positive image of India as a country attractive to invest money. They stress that India is one of the fastest growing economies in the world, ranking among the top 10 FDI destinations, developing about 7,000 km of national highways under Bharatmala Pariyojana programme. Moreover, the proportion of working age population in the country will be more than 64% by 2021. The training of professionals is carried out in 712 university level institutions and 35,671 colleges [11].

IV. KEY ACHIEVEMENTS OF THE PROGRAMME

Significant increase in FDI inflows is the main achievement of the “Make in India” programme. Their amount was \$28.2 bln in 2013, \$44.1 bln in 2015 and remained at about the same level in subsequent years. In the same time period, investments of Indian companies in foreign assets raced up (Table 1). FDI inward stock was \$386.35 bln in 2018, i.e. 23.6 times more than in 2000 and 1.88 times than in 2010 [12].

TABLE I. FDI INFLOW AND OUTFLOW TO/FROM INDIA IN 2013–2018, IN BILLION US\$ [12]

	2013	2014	2015	2016	2017	2018
FDI inflow	28.2	34.6	44.1	44.5	39.9	42.3
FDI outflow	1.7	11.8	7.6	5.1	11.1	11.0

Overall, FDI inflows in April 2014 – March 2019³ (\$285 bln) increased by 63.9% over the previous five-year period (\$134 bln), and FDI equity inflows grew by 60.2% (from \$127.1 bln to \$204 bln) [13]. The highest FDI equity inflow was registered in services (18%), computer software and hardware (9%), telecommunications (8%), construction development (6%), trading (5%), and automobile industry (5%). Significant results were also achieved in port infrastructure development, power production, petroleum, chemical, railways and textile industries [14].

FDI in the vehicle manufacturing industry was \$11.6 bln in April 2014 – March 2019 and increased by 80.18% over the same period of 2009–14 (\$6.4 bln) [13]. New car assembly lines were setup by Suzuki, Mercedes Benz, Isuzu, Fiat and Tata Motors, resulting in a 2.60% increase in car production and 1.91% increase in car exports. Sales of commercial and passenger vehicles registered a growth respectively by 11.51% and 7.24%. The turnover of auto-component industry grew by 8.80% and export by 22% in FY 2014–16 over FY 2012–14 [15]. A special attention was paid to manufacturing of hybrid and electric vehicles.

Investments in the port development projects increased from \$0.5 mln in 2010–14 to \$2.5 bln in 2014–18. This enabled the implementation of 89 projects under the Sagarmala programme, which provides for the mobilization of investments in port infrastructure in the amount of \$5.7 bln by the year 2025. Another 443 projects worth \$617.9 bln are under development and implementation [16]. The average

² Earlier Department of Industrial Policy and Promotion.

³ Financial Year (FY) in India is from 1st April to succeeding 31st March.

turnaround time was reduced from 82.32 hours in 2016–17 to 60.48 hours in 2018–19 [17].

FDI in the power industry, which accounted for almost a quarter of investment in all infrastructure industries in 2012–2017, was \$14.32 bln from April 2000 to March 2019. All generation installed capacity of India increased by 39.2% from 248.5 GW in March 2014 to 346.0 GW in October 2018 [18]. The most significant FDI inflow was registered in renewable energy industry (especially for the development of solar and wind capacities) worth \$4.8 bln between April 2014 and March 2019, while it was \$2.9 bln in the previous five-year period, i.e. investment increased by 68.23% [13]. During FY 2017–18 more than 100 bln kWh of energy were generated in India from renewable sources. The cumulative capacity of renewable energy increased from 35.5 GW in March 2014 to 73.4 GW in October 2018. Today, India ranks 4th in wind power capacity after China, USA and Germany and 5th in solar power capacity and in overall installed renewable energy capacity [19].

Although India is the second largest oil refiner in Asia after China (its refining capacity is 247.4 mln metric tonnes per annum), oil imports constituted 83.7% of its domestic consumption in 2018–19 [20]. FDI in this industry (first of all in refineries in Gujarat and in Paradip, as well as in crude oil strategic storage facilities in Visakhapatnam, Mangalore and Padur and other facilities [21]) increased by 267% in April 2014 – March 2016 (\$1.2 bln) over the previous biennium (\$327 mln) [22].

FDI equity inflow in the chemical and petrochemical industry in 2018–19 (\$2.0 bln) increased by 45.6% over 2016–17 (\$1.4 bln) [14]. The Government gave way to set up four petroleum, chemical and petrochemical investment regions in Dahej, Vishakhapatnam-Kakinada, Paradeep. These regions are expected to raise capital of about \$108.9 bln and create 3.4 new jobs [23].

The Indian government pays a lot of attention to the transport infrastructure development. 28.5 thousand km of national highways were built from 2014–15 to 2017–18, i.e. 72.8% more than in 2010–13 (16.5 thousand km). FDI in this sector amounted to 1061 bln rupees (about \$14.9 bln at the exchange rate as of mid-November 2019) from 2014–2015 to 2018–2019 [24]. The road network in India (the second largest in the world) was 5.9 mln km in March 2019, including 132.5 thousand km of national highways/expressways and 156.7 thousand km of state highways [25].

The railway sector witnessed \$281.77 mln FDI equity inflow from April 2014 to December 2016 [26]. This allowed to launch manufacturing of the semi-high speed train running at up to 160 km/h. Over 4.5 thousand railway lines were renewed, and 29,279 km were electrified in 2017–18. 3,601 bridges were strengthened, repaired, rebuilt or rehabilitated from April 2014 to December 2018 [27]. The first phase of the Eastern and Western dedicated freight corridors was completed. A diesel locomotive factory and an electric locomotive factory are set up.

FDI equity inflows in the computers and software sector registered 409% increase from \$2.3 bln during April 2012 – March 2014 to \$5.9 bln within the same period in 2014–16, and in electronics sector by 79% respectively from \$97 mln to

\$208 mln [28]. FDI inflows in electronics was valued at \$196.9 mln in 2017–18 and \$452 mln in 2018–19 [29].

FDI in textiles industry, based on cotton production, increased by 127.1% in April 2014 – March 2019 (\$1.7 bln) over the previous five-year period (\$748 mln) [13]. This sector attracted FDI worth \$3.12 bln from April 2000 to March 2019 [30].

FDI in information and broadcasting increased by 79% in 2014–18 (\$3.4 bln) over 2010–14 (\$1.9 bln). Given that India counts 197 mln television households, 17,500 newspapers and about 3,000 screens in multiplexes, this sector is very attractive for investors [31].

It should also be noted that liberalization of the investment policy to the defense manufacturing (FDI up to 49% stockholding under the automatic route and FDI through Government route if more) helped to produce various types of weapons and military equipment, in particular, Dhanush howitzers, Akash surface to air missile system and HAL Tejas light combat aircraft. Two defense production corridors are being set up according the decision of the Indian government.

The lack of qualified personnel and electrical power are factors constraining the increase in FDI inflow to India. Despite the active construction of new roads, the transport infrastructure still does not yet meet the case. India's rather complicated legislation and archaic regulatory rules are also holding back investors. Labor conflicts, that often arise between employers and employees, negatively affect the profitability of the business. Due to these factors, as well as the government's unwillingness to resort to drastic measures and the state of the overall global economy, the achievements of "Make in India" programme have been worse than expected.

V. CONCLUSION

Analysis of the "Make in India" programme revealed that the Indian government is trying to boost the national economy primarily by attracting foreign investment. To this end, a number of restrictions that impede business activity have been removed, and FDI policy has been liberalized through opening many sectors of the economy to Indian and non-resident investors.

The implementation of the programme produced some positive effects, in particular, FDI grew by almost 64% over the course of five years [13]. 78% of the FDI equity inflows are from Mauritius (32% in 2000–19), Singapore (20%), Japan (7%), Netherlands (7%), United Kingdom (6%) and USA (6%) [14].

The investments gave impetus to the development of certain sectors of the economy and to export growth. For example, exports of organic chemicals increased by 30.6% in 2018–2019 over 2017–2018, electric machines and equipment by 25.6%, petroleum products by 24.2%, drug formulations and biologicals by 11.5%, products of iron and steel by 7.2% [32]. According to official statistics, GDP growth at current prices amounted to 11.3% in 2017–18 over previous year, and 11.2% in 2018–19 [33].

At the same time, a negative impact on the achievements was provided by the lack of qualified personnel and brain drain, shortage of electric power, underdeveloped

infrastructure, complicated legislation, the government's unwillingness to take drastic measures, the increased risk of labor conflicts, and other objective and subjective reasons.

It can be assumed that FDI inflows to India will remain approximately at the current level in the coming years. This is evidenced, in particular, by the fact that their amount has changed very slightly since 2015.

REFERENCES

- [1] L.S. Revenko, and N.S. Revenko, "Made in the USA": American Experience in Stimulating the Economy," USA & Canada: Economics, Politics, Culture, 49 (9), pp. 15–36, 2019.
- [2] UNCTAD, "World Investment Report 2018," 2018. Retrieved from: http://unctad.org/en/PublicationsLibrary/wir2086_en.pdf
- [3] T. Sachdeva, D. Maheshwari, and A. Satsangi, "Transforming India – A Vision Towards a New Paradigm for Socio- Economic Growth in India Through Financial Services," Paripex – Indian Journal of Research, 6 (5), pp.326–327, 2017.
- [4] The Economic Times, "PM Narendra Modi: India will be open to business, ideas to make it a global manufacturing hub," 2014. Retrieved from: <https://economictimes.indiatimes.com/news/economy/policy/pm-narendra-modi-india-will-be-open-to-business-ideas-to-make-it-a-global-manufacturing-hub/articleshow/43498669.cms>
- [5] Business Standard, "Focus on 'Make in India'," 2014. Retrieved from: https://www.business-standard.com/article/government-press-release/focus-on-make-in-india-114092501206_1.html
- [6] India Brand Equity Foundation (IBEF), "Make in India," 2014. Retrieved from: <https://www.ibef.org/research/india-study/make-in-india>
- [7] V.V. Perskaya, "Main Directions of Deepening the BRICS Country Partnership (Based on a Comparative Analysis of National Development Strategies)," RELIGACIÓN, Revista de Ciencias Sociales y Humanidades, 4 (18), pp. 154–162, 2019
- [8] Ministry of Railways, "Sectoral Guidelines for Domestic/Foreign Direct Investment in Railways," 2014. Retrieved from: http://www.indianrailways.gov.in/railwayboard/uploads/directorate/infra/downloads/FDI_10114.pdf
- [9] Make in India, "Foreign Direct Investment," 2019. Retrieved from: <http://www.makeinindia.com/policy/foreign-direct-investment>
- [10] Make in India, "New Initiatives," 2019. Retrieved from: <http://www.makeinindia.com/policy/new-initiatives>
- [11] Make in India, "Why to Invest to India," 2019. Retrieved from: <http://www.makeinindia.com/investor-desk>
- [12] UNCTAD, "World Investment Report 2019," 2019. Retrieved from: http://unctad.org/en/PublicationsLibrary/wir2086_en.pdf
- [13] Make in India, "Significant Foreign Direct Investment," 2019. Retrieved from: <http://www.makeinindia.com/significant-foreign-direct-investments>
- [14] Department for Promotion of Industry and Internal Trade, "Fact Sheet of Foreign Direct Investment (FDI) from April, 2000 to March, 2019." Retrieved from: https://dipp.gov.in/sites/default/files/FDI_Factsheet_27May2019.pdf
- [15] Department of Industrial Policy and Promotion and Department of Heavy Industries, "Automotive Sector, Achievements Report," 2016. Retrieved from: https://drive.google.com/file/d/0B-Tv7_upCKANU1JxQWdYMDAzNGM/view
- [16] Make in India, "Ports and Shipping," 2019. Retrieved from: <http://www.makeinindia.com/sector/ports>
- [17] Ministry of Shipping, "Year End Review 2018," 2018. Retrieved from: <http://pib.nic.in/PressReleaseIframePage.aspx?PRID=1555877>
- [18] Ministry of Power, "End Year Review 2018," 2018. Retrieved from: <https://pib.gov.in/Pressreleaseshare.aspx?PRID=1555605>
- [19] Ministry of New and Renewable Energy, "Year End Review 2017," 2018. Retrieved from: <http://pib.nic.in/PressReleaseIframePage.aspx?PRID=1514215>
- [20] Make in India, "Oil and Gas, Statistics," 2019. Retrieved from: <http://www.makeinindia.com/sector/oil-and-gas>
- [21] Cleartax, "Make In India Scheme – Sectors, Programs Launched and Achievements," 2019. Retrieved from: <https://cleartax.in/s/make-in-india>
- [22] Department of Industrial Policy and Promotion and Ministry of Petroleum & Natural Gas, "Oil & Gas Sector, Achievements Report," 2017. Retrieved from: https://drive.google.com/file/d/0B-Tv7_upCKANSIkzYUd2ZE9kb1U/view
- [23] Make in India, "Chemicals and Petrochemicals, Key Achievements," 2019. Retrieved from: <http://www.makeinindia.com/sector/chemicals>
- [24] Ministry of Road Transport & Highways, "Achievements of four years (2014-2015 to 2017-2018)," 2018. Retrieved from: <http://pibarchive.nic.in/4YearsOfNDA/Comprehensive-Materials/RTH.pdf>
- [25] Ministry of Road Transport & Highways, "Annual Report 2018-2019," 2019. Retrieved from: https://morth.nic.in/sites/default/files/other_files/Annual_Report_English_2018-19.pdf
- [26] Ministry of Railways, "Railways Sector, Achievements Report," 2017. Retrieved from: https://drive.google.com/file/d/0B-Tv7_upCKANZnFWLUFJbVNaVDg/view
- [27] Make in India, "Railways," 2019. Retrieved from: <http://www.makeinindia.com/sector/railways>
- [28] Department of Industrial Policy and Promotion and Ministry of Electronics & Information Technology, "Electronics & IT Sector, Achievements Report," 2016. Retrieved from: https://drive.google.com/file/d/0B-Tv7_upCKANTF9YYORZY0N0S00/view
- [29] Make in India, "Electronic Systems, Statistics," 2019. Retrieved from: <http://www.makeinindia.com/sector/electronic-systems>
- [30] Make in India, "Textiles and Garments," 2019. Retrieved from: <http://www.makeinindia.com/sector/textiles-and-garments>
- [31] Make in India, "Media and Entertainment, Key Achievements," 2019. Retrieved from: <http://www.makeinindia.com/sector/media-and-entertainment>
- [32] KPMG, "India Economic Survey 2018-19, Flash News," 04 July 2019. Retrieved from: <https://home.kpmg/content/dam/kpmg/in/pdf/2019/07/KPMG-Flash-News-Indian-Economic-Survey-2018-19-Key-Highlights.pdf>
- [33] National Statistical Office, Ministry of Statistics & Programme Implementation, "Press Note on Provisional Estimates on Annual National Income, 2018-19 and Quarterly Estimates of Gross Domestic Product," 2019. Retrieved from: http://mospi.nic.in/sites/default/files/press_release/Press%20Note%20PE%202018-19-31.5.2019-Final.pdf