International Journal of Management, IT & Engineering
Vol. 7 Issue 5, May 2017,
ISSN: 2249-0558 Impact Factor: 7.119
Journal Homepage: http://www.ijmra.us, Email: editorijmie@gmail.com
Double-Blind Peer Reviewed Refereed Open Access International Journal - Included in the International Serial Directories Indexed & Listed at: Ulrich's Periodicals Directory ©, U.S.A., Open J-Gage as well as in Cabell's Directories of Publishing Opportunities, U.S.A

"MAKE IN INDIA: AN ALLURE FOR MULTINATIONAL COMPANIES (MNCS) IN INDIA"

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Abstract

Today India has one of the fast growing economies in the world. It is ranked 2nd amongst the developing nations and is also positioned at higher ranks than Russia, Italy, or UK. India is known for its huge market potential, running population into the billions, vast customer base, growing purchasing power and low cost labour that offer a tremendous scope and avenues for MNCs. Government of India is always trying to make India as a global hub for its growth and development and have launched many schemes and policies to make it possible. The latest and working one is "Make in India" that has been launched on 25th September 2014 under the supervision of Hon. Prime Minister Narendra Modi. "Make in India" is a revolutionary international marketing campaigning slogan aimed to attract businesses from around the world to invest and manufacture in India. The campaign has been concentrated to create millions of jobs, boost the national economy, increase FDI, Converting the India to a self-reliant country and encourage companies to increase manufacturing in India. The multinational companies (MNCs) from all over the world have realized India's market potential and have no longer seen "Make in India" as "a choice" but 'necessity to win'. This paper aims to highlight the opportunities offered through "Make in India" project to the MNCs. It also analyses the impact of "Make in India" campaign on the GDP, employment and overall development of India by inviting MNCs in the country.

Keywords:

Make in India;
FDI;
Economic Development;
Multinational Companies (MNCs);

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Introduction

For quite a long time, India had a restrictive policy in terms of foreign direct investment. As a result, there was lesser number of companies that showed interest in investment. As a result, there were a lesser number of companies that showed interest in investing in Indian market. However due to the liberalization, the scenario have changed, especially after 1991. The large number of multinational companies has made considerable inroads into the Indian market. But many have failed to realize their potential: some have succeeded only in niches and not achieved large-scale market leadership, while others haven't maximized economies of scale or tapped into the country's breadth of talent. Government of India is always trying to make their policies for the growth and development of the country. One of the important ways to enhance the economic development of the country is to increase the FDI and to make the ease for MNCs to operate in India. Now a day's government is making the continuous efforts to attract foreign investment by relaxing many of its policies. Prime Minister Narendra Modi's initiatives for "Make in India" campaign, inviting Global Companies to invest in India as well as efforts to simplify the Foreign Direct Investments regulations will certainly make India a manufacturing hub. Therefore "Make in India" campaign creates an opportunity for all the MNCs all over the world to establish their businesses in India.

Research Methodology

This research paper is a descriptive in nature and the data is secondary in character collected from various journals, magazines, articles and websites.

Objectives

- To explore the impact of "Make in India" campaign on MNCs and depicts its effect on the GDP of India.
- To analyze the impact of MNCs "Make in India" campaign on the economic development and its effect on employment through MNCs.

Make in India: Driving force for MNCs to win the Indian Market

"Make in India" is an initiative of Government of India to attract foreign Industries. It includes provision of required and attractive facilities to the industries to encourage them to set up their factories in India. "Make in India" can no longer be seen as "a choice" by MNCs looking to get a bigger pie of the market here. Today, it has become a 'necessity to win'. And there are three reasons for this:

a) Manufacturing locally in India enables companies to make significant savings on import duty and logistics costs, which remain considerably high (up to 25-30% of total landed cost). In UTC's own case, wherever we have localized our products, like chillers and elevators, we have been able to bring the cost down by at least 10-15%, thereby increasing our competitiveness and ability to penetrate new customer segments/ price points.

b) There is also a significant reduction in lead time for deliveries to the customer, especially in the case of complex engineering or high-tech products. Over here, by localizing some of our product lines, we have been able to reduce the order to delivery lead time from 12 weeks to as low as four weeks. This allows companies to be far more responsive and flexible to changing customer needs.

c) Local manufacturing also provides an opportunity for MNCs to design and manufacture products that are tailored to Indian operating conditions, which are different compared to other countries - be it how products get transported, how they are installed or under what power conditions they operate. Winning in India requires "designing and manufacturing for India".

Role of “Make in India” campaign on the growth of GDP through MNCs and its effect on the development and employment of India

According to the latest Economic Survey “Make in India” has encouraged the foreign direct investment (FDI) and has drastically boosted the MNCs to enter the Indian market. After the launch of the initiative, there was an almost 40% increase in FDI inflows from 2014 to 2015 that increases the GDP of India. The major objectives behind the “Make in India” initiative are job creation and skill enhancement in 25 sectors of the economy, including automobiles, aviation, biotechnology, chemicals, construction, defence manufacturing, electrical machinery, electronic systems and mining. Foreign direct investment plays a vital role to make substantial contribution to the economic growth by investing in these sectors and bringing along with other indirect positive impacts including transfer of technology, training, skills, employment, to name just a few, which all contribute to the long term development of the India. The Government of India has approved 100 per cent FDI in the financial services carried out by non-banking finance companies (NBFCs), which will attract more foreign capital into the country. Also 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.

According to United Nations Conference on Trade and Development (UNCTAD) World Investment Report 2016, India acquired 10th slot in the top 10 countries attracting highest FDI inflows globally in 2015. The report also mentioned that among the investment promotion agencies, India has moved up by one rank to become the sixth most preferred investment destination.

India will require around US$ 1 trillion in the 12th Five-Year Plan (2012–17), to fund infrastructure growth covering sectors such as highways, ports and airways. This would require support from FDI flows. India's growth rate, along with competitive location in terms of wages and policies like "Make in India" and "Stand Up India", is expected to boost FDI in the coming future. According to the Department of Industrial Policy and Promotion, FDI inflows under the approval route (which requires prior government permission) increased by 87% during 2014-15 with an inflow of $2.22 billion. More than 90% of FDI was through the automatic route. Also in 2014-15, foreign institutional investment rose by an unprecedented 717% to $40.92 billion. A state-wise analysis of FDI inflows by the economic survey shows that Delhi, Haryana, Maharashtra, Karnataka, Tamil Nadu, Gujarat and Andhra Pradesh together attracted more than 70% of total FDI inflows to India during the last 15 years. It has been estimated that by 2025, India's manufacturing sector is expected to generate over 100 million new domestic jobs and contribute 25% of national GDP compared to ~16% currently. In 2015 the Gross Domestic Product (GDP) in India was worth 2095.40 billion US dollars and represents 3.38 percent of the world economy as shown below in the chart. GDP in India averaged 484.96 USD Billion from 1960 until 2015, reaching an all time high of 2095.40 USD Billion in 2015 and a record low of 37.68 USD Billion in 1960. The Indian GDP chart from 2006 to 2016 is shown in the chart as below in figure 1.

Figure 1. *Indian GDP chart from 2006 to 2016*

It is clear from the above chart the GDP has shown a drastic growth from 2013 to 2015 and reached to maximum. The main reason for such a growth is "Make in India" Policy that increases FDI inflow and MNCs in India.

The impact of "Make in India" on the GDP rate of India can also be explored from Indian annual GDP growth rate shown in below figure 2 in the form of chart which clears indicates that during the introduction of "Make in India" Campaign in 2014, GDP rate had touched the maximum of 8.4 percent. According to Trading Economics global macro models and analysts expectations it is expected that by the end of this quarter, the GDP Annual Growth Rate in India will come down to 6.50 percent as it is affected by demonetization. Looking forward, in the coming 12 months it has been estimated that GDP Annual Growth Rate in India will stand at 7.10 percent.

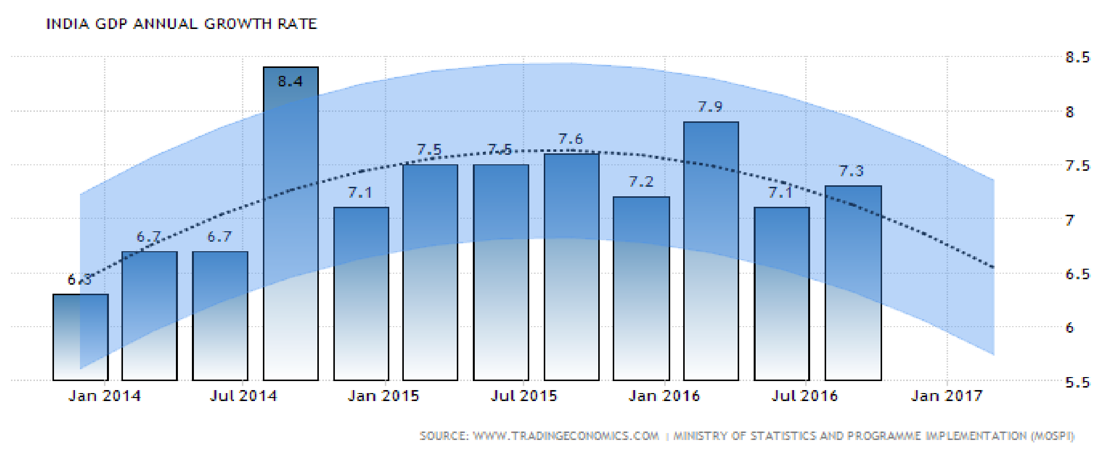

Figure 2 Indian annual GDP growth rate

According to Economists, each 1 per cent increase in FDI adds about 0.4 per cent to a country's GDP growth. So, to boost GDP growth by about 2 percent, India will need about 5 percent increase in FDI. In other words, at the current level of GDP of almost $2 trillion in India, about $100 billion of FDI is required to boost the GDP growth by 2 percent.

The 100 percent FDI in “Make in India” Policy has invited the more MNCs to Invest in India results in the economic growth and reduction in unemployment. Rana Kapoor Chairman, ASSOCHAM Global Investors' India Forum said that in order to actualize the vision of '“Make in India” ', ASSOCHAM is establishing the GLOBALINVESTORS' INDIA FORUM, which will galvanize investments into India through an extensive network of International Business Promotion Councils and ASSOCHAM offices/alliances across the world, and position India as the Number One investment destination globally. ASSOCHAM also initiated the Globalization campaign in September 2014 to actualize the vision of '“Make in India” ', by opening 14 International offices at India's top trading partner locations including UK, USA, UAE, Germany and Singapore, amongst others, for inviting Multinational businesses to invest in India and be a part of our nation's economic transformation.

Conclusion

The development of the country is highlighted by its GDP growth, better the GDP, the more developed will be the nation, but the GDP depends upon the FDI through MNCs. Keeping this in view, the “Make in India” campaign of Mr Narendra Modi concentrated more on the manufacture, by boosting the foreign investment, so it is natural that it will have a better impact on the GDP. Currently, the GDP of India is $1.877 trillion (6%), and it is increasing at the annual rate of 5%. And, the intentions are to make India stand at the 3rd position by 2020 in terms of Gross Domestic Product. The “Make in India” Policy has encouraged the FDI through MNCs and on an average, 5 million new jobs have been created each year, but around 12 million people join the workforce each year. Also India's labour force is expected to grow to 600 million by 2022. To tackle that problem MNCs plays a vital role by through creating new jobs. Job creation is the main weapon that will fight poverty and helps in increasing the GDP and overall development of the country. With the help of MNCs, India’s manufacturing sector has the potential to touch US$ 1 trillion, account for 25-30 per cent of the country’s GDP and create up to 90 million domestic jobs by 2025.

In short, it can be concluded that "Make in India" campaign plays a pivotal role in the success of MNCs in India. It is also an important tool by means of which countries unemployment crises can be solved and economic development through FDI by MNCs could be possible.

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