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A Study on the Influence of Make in India Initiative on Economic Growth: An Empirical Assessment based on OLS Model

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Abstract:

The "Make in India" initiative, launched in 2014, represents a transformative policy aimed at revitalizing India's manufacturing sector and enhancing economic growth. This study explores the theoretical underpinnings and empirical impacts of the initiative, linking it to key economic frameworks such as structural change theory, endogenous growth theory, and the export-led growth paradigm. This study investigates the effect of Make in India on Economic Growth in a system including FDI growth, imports, exports, and gross fixed capital formation (GFCF). Using a robust regression model with Newey-West HAC standard errors, the findings highlight that GFCF growth is the most significant driver of GDP growth, emphasizing the importance of productive investments. The Make in India policy dummy also shows a statistically significant positive effect, confirming its role in stimulating manufacturing and economic growth. While current FDI growth exhibits an insignificant effect, its first lag is negative and highly significant, suggesting short-term adjustment costs. Trade variables, including imports and exports, are largely insignificant, with delayed export effects reflecting external vulnerabilities. The results underline the efficacy of targeted policy interventions and the critical role of capital formation in sustaining economic growth.

Keywords: *Make in India, Economic Growth, Foreign Direct Investment (FDI), Gross Fixed Capital Formation, Export-led Growth, Endogenous Growth Theory*

I. Introduction:

The Make in India initiative, launched in 2014 by the Indian government, aims to transform India into a global manufacturing hub and drive economic growth through increased industrial output, innovation, and job creation. Its focus is on attracting foreign direct investment (FDI), enhancing the ease of doing business, and promoting the growth of manufacturing and other sectors critical to economic development. The potential impact of Make in India on the Indian economy has been the subject of considerable discussion, with studies examining its effects on manufacturing, employment, exports, and overall economic growth (Sarkar, 2010; Ramaswami et al., 2011). While some studies highlight the positive growth prospects from increased industrialization and investment, others point out the challenges in implementing the initiative, such as infrastructure deficits and regulatory bottlenecks (Pandey & Agrahari, 2023). The initiative's success, however, hinges not only on the policy framework but also on the country's ability to translate these strategies into tangible economic growth and development. Several studies suggest that the initiative could be a catalyst for India's transformation, but a detailed empirical analysis is needed to assess its effectiveness in driving long-term growth.

This study aims to empirically assess the influence of the Make in India initiative on India's economic growth, focusing on key metrics such as GDP growth, FDI, Gross Fixed Capital Formation and Imports. By using OLS regression technique, we seek to quantify the contribution of this policy to the economic performance of India. Specifically, the study attempts to address whether the Make in India

initiative had a measurable impact on India's GDP growth?

This work is unique in that it combines a comprehensive examination of both economic growth and Gross Fixed Capital Formation using data-driven analysis to isolate the impact of Make in India. Previous studies have examined aspects like FDI inflows and industrial growth separately, but a holistic, econometric assessment of the direct impact of the initiative on national economic growth has been relatively scarce. By focusing on both macroeconomic and sectoral indicators, this study provides a broader understanding of the initiative's overall impact. Furthermore, this research uses more recent data and advanced econometric techniques to provide a robust evaluation of the initiative's effects, contributing to the existing literature on India's economic development.

The paper is structured as follows: The first section reviews the literature on Make in India, focusing on its objectives, challenges, and previous research on its economic impact. The second section outlines the methodology, including data sources and the econometric models used to estimate the effects. The third section presents the results of the empirical analysis, followed by a discussion of the findings in the context of policy implications. Finally, the conclusion summarizes the key insights and suggests avenues for future research.

II. Literature Review:

Theoretical Framework:

The structural change theory, which holds that resources are transferred from low-productivity industries like agriculture to high-productivity industries like manufacturing and services, is strongly related to the "Make in India" initiative (Kumar, 2018). The objectives of "Make in India" to support manufacturing as a growth engine are in line with this philosophy, which highlights industrialization as a crucial element of sustainable development. In line with endogenous growth models, which emphasize the contribution of human capital, innovation, and knowledge spillovers to long-term economic growth (Reinert, Ghosh, & Kattel, 2016), the initiative promotes skill development and foreign direct investment, both of which stimulate innovation and technology transfer. Further, the Keynesian multiplier effect concept highlights how "Make in India" industrial investments can have a cascading effect on the economy, resulting in stronger GDP growth, increased employment, and increased consumption (Prabhakar, 2024). To some extent, the incorporation of "Make in India" is also explained by new institutional economics, which highlights the role of government policies, regulatory frameworks, and ease of doing business in fostering economic growth (Shukla, Purohit, & Gaur, 2017). Subsequently, "Make in India" aims to enhance India's integration into global value chains by boosting exports which aligns with trade and export-led growth theories, which highlight the role of outward-oriented strategies in achieving rapid economic expansion (Lewis, 2013).

Review of Studies:

Foreign direct investment (FDI) has been a key driver of economic growth worldwide, though, the effect varies by region and economic context. Kurtishi-Kastrati (2013) offers a theoretical overview, emphasizing the dual advantages of technology transfer and capital infusion in developing economies. Talwar and Srivastava (2018) and other empirical studies examine how FDI integrates with GDP growth at various developmental stages, reaffirming its catalytic role in increasing economic output. Nistor (2014) highlights the necessity for balanced FDI policies by pointing out possible disadvantages such reliance on outside funding and unequal regional benefits. Case studies, such as that of China (Zhao & Du, 2007), demonstrate a bidirectional causality between FDI and GDP growth, whereby growth also draws in new investments. Furthermore, many studies have examined the relationship between GDP and imports, especially as it relates to trade balances and economic resiliency. Smith et al. (2020) contend that by filling in the gaps in domestic production, increasing imports can boost GDP growth. But an over-reliance on imports, particularly in developing nations, frequently results in trade imbalances that have a negative effect on GDP (Har et al., 2008). Long-term sustainability may be hampered in

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import-driven economies by a decline in domestic industrial competitiveness, as Zhao and Du (2007) further demonstrate. In order to promote inclusive growth, smart trade policies that strike a balance between domestic production capability and import requirements are necessary given the complex link between GDP and imports.

Aydin and Sari (2014) highlight the symbiotic relationship between export growth and GDP, where higher exports generate foreign exchange reserves and spur industrial output. Studies such as those by Ojha and Vrat (2019) highlight the pivotal role of exports in enabling sustainable economic growth, especially in export-led economies. However, depending too much on exports can make economies vulnerable to global demand shocks, as demonstrated in the case of export-heavy nations during global recessions. As a result, while exports are a crucial GDP component, their effectiveness depends on diversified trade portfolios and strong domestic markets. Regarding Gross Fixed Capital Formulation, Kanu et al. (2014) shows a strong correlation between GFCF and GDP in Nigeria, where increased investments in infrastructure and industrial assets have bolstered productivity; Meyer and Sanusi (2019) establish a causality relationship between GFCF, employment, and GDP in South Africa, further highlighting the multifaceted benefits of capital formation; and Trpeski and Cvetanoska (2019) extend this analysis to Southeast Europe, demonstrating GFCF's role in boosting productivity and regional competitiveness.

Even while the interlinkages between FDI, GDP, imports, exports, and GFCF have been thoroughly studied, there is still a significant lack of empirical evaluations of particular policy initiatives like "Make in India." The majority of current literature either discusses FDI's influence in general or concentrates on specific GDP components, ignoring the comprehensive effects of programs like "Make in India."

India's strategy for promoting industrial growth and economic development has been centered on the "Make in India" initiative, which was introduced in 2014. Its favorable effects on FDI inflows are highlighted by studies such as Manchanda and Gaur (2016), which establish India as a competitive global manufacturing hub. Similarly, by emphasizing indigenous manufacturing and lowering reliance on imports, Pandey and Agrahari (2023) highlight the initiative's importance in reshaping the economic environment. Further research highlights the multiplier effects of improved manufacturing, which support GDP growth (Thareja, Sharma, & Sharma, 2016). However, there are still gaps in the empirical assessment of the sectoral and regional effects of this project (Ojha & Vrat, 2019), which calls for more exploration into its overall economic scenario.

III. Methodology of the Study:

Objective of the Study: The objective of this study is to carry out an empirical assessment of the influence of Make in India initiative on Economic Growth which is represented by GDP growth. The study also explores how the key macroeconomic indicators i.e., Gross Fixed Capital Formulation, FDI and Imports affect economic growth in the study period.

Data Selection:

The study employs quarterly data from 2000Q1 to 2023Q4 of Gross Domestic Product, Gross Fixed Capital Formulation, Foreign Direct Investment, Imports, Exports, and dummy of Make in India initiative from 2014Q3 onwards. The quarterly estimates are sourced from RBI DBIE database. To ensure stationarity and to reduce potential multicollinearity, the logarithmic differences are employed. GDP series is taken at its first difference to represent growth and ensure stationarity. The model assumes as lin-log model form (Gujrati, 2007).

Unit Root Testing:

The results in

Table ***1*** reflect the stationarity of the variables. GDP is included in the study at absolute levels rather than logarithmic transformation so that it may reflect absolute changes for interpreting the policy effect. The stationarity test for GDP reveals that the first difference of GDP is stationary thereby leading to

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the incorporation of ΔGDP in the model reflecting growth in the GDP series. FDI is also included in absolute terms to reflect the actual values for accuracy in estimation. The regressors GFCF, IMPORTS and EXPORTS are log transformed and the stationarity test reveals that all these regressors are significant at first differences, thereby leading to incorporation of ΔlnGFCF, ΔFDI, ΔlnIMPORTS and ΔlnEXPORTS in the OLS regression model.

Table 1: Unit Root Test Results for ADF, PP and KPSS

Variable		ADF test (with trend and intercept)		Philips Perron (with trend and intercept)		KPSS Test (with trend and intercept)
		t-stat	p-value	t-stat	p-value	LM-Stat
GDP	At Level	0.509	0.999	-0.675	0.971	0.3063
	At First Diff.	-11.019	0.000***	-15.764	0.000**	0.1103***
lnGFCF	At Level	-1.440	0.842	-2.703	0.237	0.2897
	At First Diff.	-8.920	0.000***	-20.266	0.000***	0.1268**
FDI	At Level	-1.697	0.744	-7.822	0.000***	0.3069
	At First Diff.	-11.046	0.000***	-81.690	0.000***	0.2903
lnIMPORTS	At Level	-1.608	0.782	-1.628	0.774	0.2843
	At First Diff.	-9.549	0.000***	-9.551	0.000***	0.0551***
lnEXPORTS	At Level	-2.114	0.530	-1.905	0.643	0.2884
	At First Diff.	-12.071	0.000***	-12.687	0.000***	0.1129**

Source: Author's Computation using E-views; *** ** and * represents significance at 1%, 5% and 10% critical levels

Descriptive Statistics:

The descriptive statistics of GDP growth (ΔGDP), investment growth (ΔlnGFCF), foreign direct investment growth (ΔFDI), import growth rate (ΔlnIMPORTS) and export growth rate (ΔlnEXPORTS) included in this model are shown in Table *2* . The average growth in GDP is at 77,206 crores in absolute measure which also incorporates influence of extremes. The highest average growth rate in the model is of IMPORTS at 2.69% and lowest average growth rate observed by FDI at 2.69% over the quarters from 2000 to 2023.

Table 2: Descriptive Statistics of Variables included in the Model

	Δ GDP	ΔlnGFCF	ΔFDI	ΔlnIMPORTS	ΔlnEXPORTS
Mean	77206.80	0.032281	288.5368	0.034235	0.035476
Median	64997.00	0.039559	409.3333	0.033294	0.038589
Maximum	834338.7	0.444893	29040.00	0.267168	0.222817
Minimum	-1254790	-0.562080	-25283.00	-0.422085	-0.215727
Std. Dev.	231693.0	0.095817	6450.697	0.085607	0.084069
Skewness	-1.390356	-1.732718	0.474977	-1.331698	-0.353120
Kurtosis	15.10234	20.12039	9.839543	10.55501	3.608441

Source: Author's Computation using E-views

IV. OLS Estimation:

The study employs OLS regression to study the relationship between GDP growth and key predictors including Make in India, GFCF, FDI and Imports. Ordinary Least Squares regression is a prominent econometric tool applied for assessment of relationships between variables, particularly macroeconomic indicators. Numerous empirical studies have utilized OLS predominantly to assess the factors instrumental in Economic Growth because of its simplicity, robustness and its feature of best linear unbiased estimators (Barro, 1996). Moreover, studies give evidence for relevance of

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OLS in gaining insights regarding macroeconomic outcomes, i.e., GDP, and evaluation of policy effectiveness when the relationship is linear and endogeneity is dealt with through robust estimations (Chakrabarti, 2001; Fetahi-Vehapi et al., 2015; Adeola and Ikpesu, 2017). The application of OLS enables an effective method to study the effect of interventions in the form of policies, "Make in India" for this study, by controlling for other variables.

OLS regression's potential to yield statistically sound estimates and insights into the efficacy of policy measures makes it an appropriate methodological choice for assessing the impact of "Make in India" on GDP. The regression model employed in this study uses Newey West HAC (Heteroscedasticity and Autocorrelation Consistent) standard errors and covariance to deal with the issues that may potentially arise out of heteroscedasticity and autocorrelation in the residuals. The Newey West approach adjusts the standard errors to make sure that they remain robust and reliable, even if the model consists of heteroscedasticity or autocorrelation, thereby correcting the t-statistics and p-values for the regression coefficients, leading to more accurate inference, and making the estimation results more reliable. The model consists of lagged variables to cover the short-term effect over lags, the lag is identified through lag selection criteria, i.e., AIC and HQIC.

Table 3: OLS Regression Model (Newey-West HAC Standard Errors and covariance)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-5755.273	14959.51	-0.384723	0.7014
DFDI	-39980.04	26941.71	-1.483946	0.1416
DLNIMPORTS	361492.2	252580.1	1.431198	0.1561
DLNEXPORTS	-248268.4	183133.1	-1.355672	0.1788
DLNGFCF	1907281	183026.7	10.42078	0.0000***
MAKE_IN_INDIA	105107.2	22508.31	4.669708	0.0000***
DFDI (-1)	-13.01934	2.838326	-4.586979	0.0000***
DFDI (-2)	-7.686432	4.853772	-1.583600	0.1170
DLNEXPORTS (-2)	-492390.9	216868.0	-2.270463	0.0257**
R Squared	0.751101	Mean dependent var		78116.08
Adjusted R-Squared	0.727397	S.D. dependent var		234001.7
S.E. of Regression	122175.6	Akaike info criterion		26.37702
Sum squared resid	1.25E+12	Schwarz criterion		26.67658
Log likelihood	-1216.557	Hannan-Quinn criterion.		26.49798
F-statistic	0.000000	Durbin Watson Stat		2.060023
Prob (Wald F-statistic)	0.000000	Wald F-statistic		36.89177

Source: Author's Computation using Eviews

The estimated model is represented as follows:

$$DGDP = -4509.83208685 - 2.14386237574 * DFDI + 386676.91472 * DLNIMPORTS - 309137.20474 * DLNEXPORTS + 1882188.48342 * DLNGFCF + 104849.685372 * MAKE\_IN\_INDIA - 12.914606551 * DFDI\ (-1) - 7.68845251985 * DFDI\ (-2) - 475719.13604 * DLNEXPORTS\ (-2)$$

The regression model studies the relationship between GDP growth and the key explanatory variables including FDI growth, growth rate of imports, exports, and growth rate of gross fixed capital formation, subsequently including policy intervention which is represented by the Make in India dummy. Lagged values of FDI and exports are also included in the model to capture dynamic effects and overall robustness of the model. The model has been estimated using Newey-West HAC standard errors to ensure that the inferences remain robust.

The growth rate of Gross Fixed Capital Formation is highly significant and positive with the p-value of less than 0.01, thereby indicating that the growth rate of gross fixed capital formation is the major driver

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of growth in GDP, thereby suggesting that investment in fixed capital substantially contributes to economic growth. So, there is a need of fostering productive investments in the economy.

The most pertinent core part of this study, the Make in India Policy Dummy shows a statistically significant positive effect with a p-value of less than 0.01 that is significant at 1 percent dependent variable that is GDP growth which indicates that the Make in India initiative has successfully contributed to economic growth. This highlights that policy measures in that stimulating manufacturing and domestic production have been effective and have contributed meaningfully to overall economic growth.

As for FDI growth, the model shows that the current year's FDI growth has a negative but statistically insignificant effect which can also be interpreted as FDI not exhibiting immediate effect on GDP growth. So, the lagged values of FDI growth have been incorporated into the model and it is found that the first lag of FDI growth is negative and highly significant suggesting that the short-term effects of FDI inflows might be dominated by disruptive disruptiveness in the form of adjustment cost or profit repatriation. The second lag of FDI growth is also negative but it is not statistically significant which implies that while working with growth of FDI as a macroeconomic indicator, its effects tend to retain over the short term. The growth rate of imports has a positive coefficient, but is not statistically significant. Whereas the growth rate of exports is also not statistically significant, but its second lag is negative and significant, indicating that export growth may initially benefit the economy, but delayed negative impact could be owing to external volatility.

V. Model Diagnostics:

(1) Model Fit: The R squared value of 0.7511 that is approximately 75.1% of the variation demonstrates the overall strong fit of the model. The adjusted R square is at 0.7274 which shows that the fit of the model remains robust even after adjusting for potential overfitting. The highly significant F-statistic at 0.000 confirms that the independent variables are collectively significant and give meaningful contribution to the model. The standard error of regression estimation is also relatively low at 122175.6 thereby reflecting that the predictions of this model are close to the actual values of dependent variables.

(2) **Autocorrelation:** The Durbin-Watson test is applied to detect the presence of autocorrelation in the residuals of the model against the null hypothesis that there is no autocorrelation in the residuals. The alternative hypothesis indicates that the model has either positive or negative autocorrelation. The Durbin-Watson statistic from the model is 2.06 which is very close to the ideal value of 2 indicating that there is no significant autocorrelation in the residuals. Thereby, the results accept the null hypothesis of no autocorrelation.

Additionally, the inclusion of lagged explanatory variables in the model increases the chances of autocorrelation in the residuals because these lag terms may introduce patterns that vary with time. Therefore, Breusch-Godfrey Serial Correlation LM test is carried out to check if the model has Serial Correlation or not. The results of the Breusch-Godfrey LM test demonstrate that there is no evidence of serial correlation in the residuals of the model with both the F-statistic and Obs*R-squared statistics, suggesting that the residuals are independent, thereby ensuring that the estimated coefficients and standard errors are reliable.

Null Hypothesis: No serial correlation at up to 2 lags.

Table 4: Breusch-Godfrey Serial Correlation LM Test

F-statistic	1.273805	Prob. F (2, 82)	0.2852
Obs*R-squared	2.802299	Prob. Chi-Square (2)	0.2463

Source: Author's Computation using Eviews

(3) Heteroscedasticity: Heteroscedasticity implies the variance of the residuals varying across observations which may lead to bias in the standard errors. To handle this issue, the model was estimated

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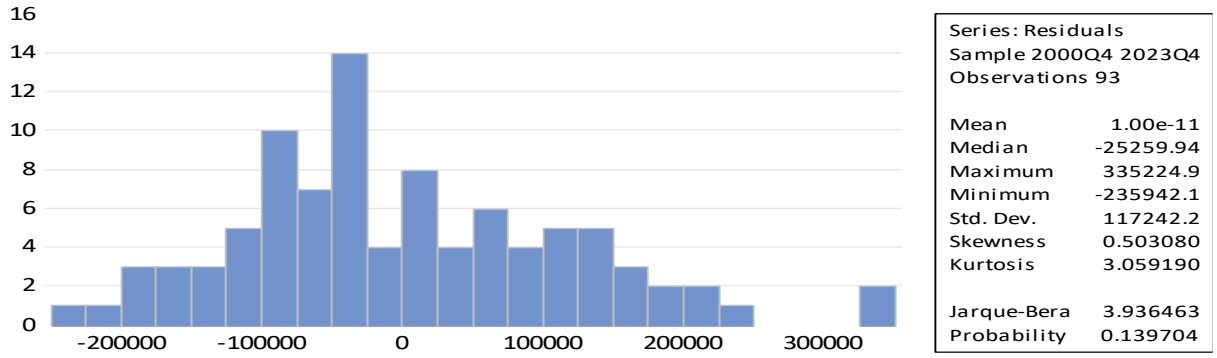
using Newey-West-HAC (Heteroscedasticity and Autocorrelation Consistent) standard errors which enable robust and reliable inference by adjusting for both heteroscedasticity and autocorrelation, thereby ensuring that the estimated standard errors are robust and the inferences are accurate even if heteroscedasticity is present. The application of HAC standard errors thereby eliminates the need for additional heteroscedasticity tests, and the reliability of the estimated coefficients and their statistical significance is ensured.

(4) Residual Diagnostics: The residual diagnostics ensure that the residuals of the model are normally distributed. This is evidenced by the Jarque Bera Test of Residual Normality which demonstrates a statistic of 3.936 with a p-value of 0.1397. Since the p-value exceed the critical value of 0.05, the null hypothesis of residuals being normally distributed is accepted. The residuals of the model are normal and do not capture any more information.

Figure 1: Histogram showing Residual Normality



Source: Author's Computation using Eviews

(5) Multicollinearity: Variance Inflation Factors (VIFs) are used to study the presence of multicollinearity among the independent variables in the model. The results presented in the table below specify that all centered VIFs were below the commonly accepted value of 10 and the highest VIF 4.78 is of the 2nd lag of FDI growth, thereby indicating that there are no severe multicollinearity issues in the model. Most of the variables had VIFs below 5, indicating that a majority of predictors are free from multicollinearity. The lagged variables of FDI have demonstrated slightly high values of VIFs but they are within the acceptable limits. So, these results confirm that the model's explanatory variables are robust and the accuracy of this model's inference is not affected by multicollinearity.

Table 5: VIF Estimation

Variable	Co-efficient Variance	Uncentered VIF	Centered VIF
C	2.06E+08	2.436052	NA
DFDI	9.797814	2.353235	2.085158
DLNIMPORTS	7.59E+10	2.918148	2.174914
DLNEXPORTS	3.55E+10	1.857697	1.578387
DLNGFCF	3.43E+10	2.116487	2.106102
MAKE_IN_INDIA	4.67E+08	2.955270	1.926884
DFDI (-1)	11.78295	4.374621	4.366750
DFDI (-2)	23.70832	5.216889	4.781604
DLNEXPORTS (-2)	4.71E+10	2.108300	1.890984

Source: Author's Computation using Eviews

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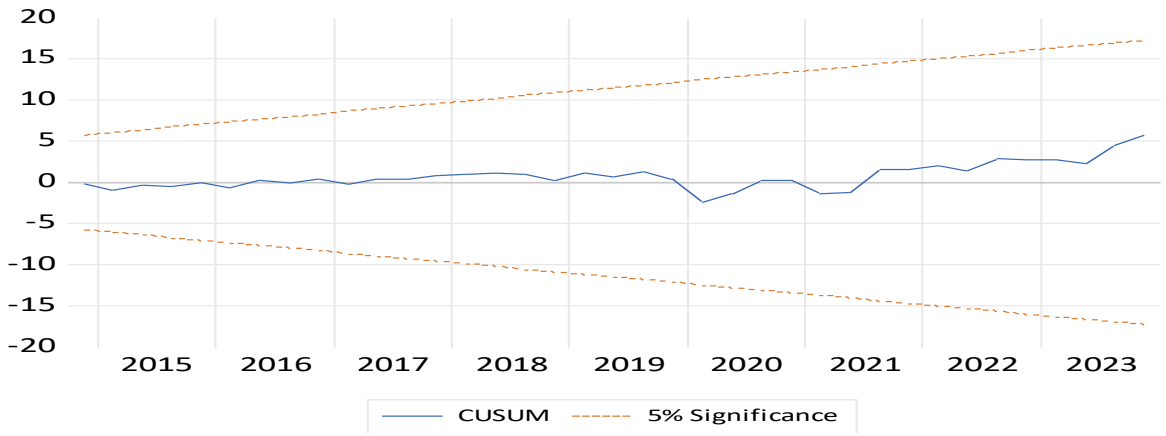
(6) Stability and Specification: The Cumulative Sum (CUSUM) test has been conducted to study the stability of the regression model over time. The CUSUM test evaluates if the cumulative sum of recursive residuals is within the critical bounds of a 5 percent significance level or not. This is depicted in the plot below that the CUSUM plot is within the upper and lower bounds throughout the sample., thereby indicating that there is no significant structural instability in the model, which confirms that the parameters of the model are stable over time and the relationship between dependent and independent variables do not show major changes throughout.

Figure 2: CUSUM Plot



Source: Author's Computation using Eviews

VI. Conclusion and Recommendations:

The objective of this study was to empirically examine the effect of Make in India on economic growth using an Ordinary Least Squares regression framework that included important macroeconomic variables, such as FDI growth, imports, exports, and Gross Fixed Capital Formation (GFCF). The results show that the initiative indeed has a positive impact on economic growth, as indicated by the statistically significant and positive coefficient of the policy dummy variable, which highlights the efficacy of efforts to boost domestic manufacturing and draw in foreign investments. GFCF also emerged as a critical determinant of growth, highlighting the significance of investments in productive assets and infrastructure in propelling economic advancement.

A noteworthy result from this study is the negative sort terms relationship between FDI growth and GDP growth. This finding deviates from the general intuition of positive relationship which can be attributed to several factors. The quarterly data used may capture the short-term fluctuations and adjustment costs related to FDI inflows including time lag involved in the materialization of the effects of FDI. From another perspective, the inclusion of GFCF in the model might dominate and influence this relationship because in the short run, when the variables revert to the mean, GFCF captures the immediate effect of domestic investments where FDI exhibits persistence. However, the sectoral distribution of FDI might also affect this relationship over the quarters, if the sectors yield benefits after a lag, then the short-term effects may be influenced.

The findings state that there is no direct influence of imports and exports on GDP growth within the purview of this model, thereby emphasizing the need for more focused policies to ensure that there is a need for more policies directed towards enhancing export competitiveness. Based on these findings, it is proposed that the Make in India initiative should be strengthened by targeting manufacturing sectors with high potential for growth and global competitiveness. GFCF investments need to concentrate on vital infrastructure initiatives that can

boost the economy and draw in the private sector via public-private partnerships. Third, measures should be put in place to facilitate the seamless integration of foreign businesses into the domestic economy in order to reduce disturbances, and FDI policies should be adjusted to focus investments on industries with shorter gestation periods and immediate development potential. Lastly, trade rules should be reassessed to promote domestic production of currently imported commodities to support regional industries and to increase export competitiveness through incentives for innovation, quality improvement, and market diversification.

Essentially, this study shows how important the Made in India campaign is for fostering economic expansion, but it also points out immediate problems like the inverse relationship between GDP growth and FDI growth. Addressing these difficulties through strategic policy measures—such as targeted FDI allocation, infrastructure expenditures, and better trade competitiveness—can assure sustainable economic growth. The findings underline the significance of adaptable and nuanced governance to maximize the benefits of efforts like Make in India, while managing the challenges of a fast-developing global economic context. The findings of the study align with the theoretical underpinnings thereby recognizing Make in India as an effective policy intervention for the growth of Indian Economy.

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