

# An Overview of Foreign Direct Investment in India

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## Abstract:-

India is one of the fastest growing economies in the world with lower level of savings for investment. To fill up the gap between savings and investment, India open up its doors for Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI) with more focus on Foreign Direct Investment. FDI brings new technology, latest management techniques and technical know-how for the development of economy. The present study is undertaken to analyze the trend and growth in FDI and FPI during the period 2000-01 to 2016-17. Mainly secondary data has been used in the present study. The need and role of FDI in development of Indian economy is also studied in the present study.

**Keywords:- Foreign Direct Investment (FDI), Foreign Portfolio Investment (FPI).**

**Introduction:-**India is one of the fastest growing major economies in the world. Indian economy is diverse and encompasses agriculture, handicrafts, manufacturing, textile and a multitude of services. Foreign investment plays a crucial role in multi dimensional development of an economy like India. Many countries provide many incentives for attracting the Foreign Direct Investment (FDI). Foreign Direct investment works as a bridge to fulfill the gap between investment and saving. In the process of economic development, foreign capital not only helps to cover the domestic saving constraint but also provide access to the superior technology that promote efficiency and productivity of the existing production capacity and generate new production opportunity. In other words, it also plays a vital role for the technological up gradation and generation of employment opportunities.

Foreign investment means both Foreign Portfolio Investments and Foreign Direct Investments (FDI). Foreign Portfolio Investment is an investment in the shares and debt securities of the companies abroad in the secondary market for sake of returns and not in the interests of the management of a company whereas in case of Foreign Direct Investment (FDI), the private foreign investors either sets up a branch or a subsidiary in the recipient country. FDI brings better technology and management, marketing networks and offers competition. FDI helps Indian companies to improve the quality of goods and services which ultimately improves consumer satisfaction.

**Objective and Methodology:-**The objective of the present paper is to analyze the trends of FDI and its impact on Indian economy. The study is based on the secondary data pertaining to seventeen years i.e. from 2000 to 2017. The data is collected mainly from RBI website, annual reports and journals.

**FDI Policy Overview:-** FDI Policy frameworks in India dealing with FDI inflows can be divided in four phases.

**Phase I:** India lacked a policy of its own on foreign capital before independence because it derived its faith in total laissez faire from the British government. Resultantly, foreign enterprises found it convenient to export products to India and were justified by local circumstances to setup branches or wholly owned subsidiaries. This phase is “cautions welcome policy” from independence to the emergence of crisis in the late sixties (1948-66).

**Phase II:** In this phase, under the New Industrial Licensing Policy announced in 1970, the larger industrial houses and foreign enterprises were permitted to setup industries in the ‘core’ and the heavy investment sectors except industries reserved for the public sector. It is called ‘Selective and Restrictive Policy’ from 1967 till the second oil crises in 1979.

**Phase III:** In this phase, liberalized facilities were extended to overseas companies, partnership firms, trusts, societies and other corporate bodies in which at least 60 percent of the ownership/beneficial interest were vested in Non-Resident Individuals (NRIs) of Indian nationality or origin. NRIs were allowed to invest (i) upto 100 percent of the equity capital in sick industrial units. (ii) In new issues of Indian shipping companies under the 40 percent scheme and (iii) in diagnostic centers in India, under 40 percent or 74 percent scheme. It is the era of “Partial Liberalization Policy” which remains from 1980 to 1990 with progressive attenuation of regulations.

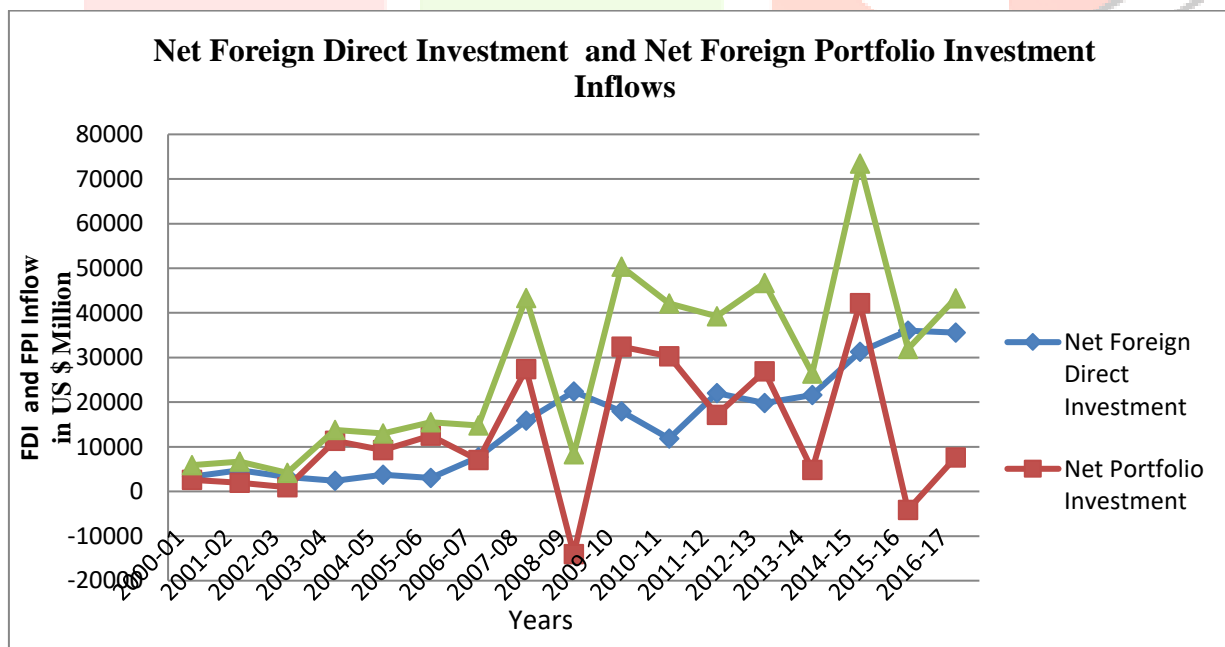
**Phase IV:** In this phase FDI is allowed almost in all areas, except multibrand retailing sector, gambling and lottery. It is known as “Liberalization and Open Door Policy” since 1991 onwards signifying liberal investment environment. Liberalization of FDI policy has been responsible for a changing sectoral composition of FDI stock and inflow in India.

**FDI Inflow in India:-**The trends of net FDI and FPI inflow has been depicted in the Table 1 and Figure 1. Table 1 shows that the inflows of net Foreign Direct Investment have increased from US \$ 3,272 million to US \$ 35,612 million in the period from 2000-01 to 2016-17. Inflows of net FDI shows fluctuating trend during the same period. The amount of net FPI has also increased from US \$ 2,590 million to US \$ 7,612 million during the period under study. It shows a more fluctuating trend during the same period. It is revealed from the table that it has become negative during 2008-09 and 2015-16. In many other years it has also dropped significantly.

**Table 1: Net Foreign Direct Investment and Net Foreign Portfolio Investment Inflows (US \$ Million)**

Years	Net Foreign Direct Investment	Net Portfolio Investment	Total Inflow
2000-01	3272	2590	5862
2001-02	4734	1952	6686
2002-03	3217	944	4161
2003-04	2388	11356	13744
2004-05	3713	9287	13000
2005-06	3034	12494	15528
2006-07	7693	7060	14753
2007-08	15893	27433	43326
2008-09	22372	-14030	8342
2009-10	17966	32396	50362
2010-11	11834	30293	42127
2011-12	22061	17170	39231
2012-13	19819	26891	46711
2013-14	21564	4822	26386
2014-15	31251	42205	73456
2015-16	36021	-4130	31891
2016-17	35612	7612	43224

Source: RBI Bulletin



Source: Data of Table 1

**Impact of FDI on Indian Economy:-**Foreign capital and technology have been playing a vital role in India's industrial development. At the time of Independence, India inherited an industrial structure restricted to a few industries like textiles and sugar. But now the picture has changed completely and the industrial

structure has been widely diversified covering broadly the entire range of consumer, intermediate and capital goods. The country has achieved self-sufficiency with foreign collaboration in most of the manufactured products, but primarily through domestic efforts. This is indicated by the decline in relative share in industrial production of the traditional manufacturing sectors like Food and Textiles and substantial increase in the production of new sectors like Engineering and Chemicals. The diversification of industrial structure is further reflected in commodity composition of our foreign trade in which the share of imports of manufactured products have become a growing component of exports. The rapid stride in industrialization has been accompanied by corresponding growth in technological and managerial skills obtained from abroad, not only for efficient operation of highly complex and sophisticated industrial enterprises but also for their planning, design and construction.

There has been a growing presence of Foreign Direct Investment in Indian capital market evidenced by an increase in their net sizable investments. This indicates that Indian capital markets have become vibrant in terms of their composition of various constituents of the market. In India, foreign capital helps in increasing the productivity of labour and to build up foreign exchange reserves to meet the current account deficit. Foreign investment provides a channel through which the country can have access to foreign capital. FDIs have significant impact on the Indian economic growth in terms of Export, Gross Domestic Product and Foreign Exchange Reserves. Government should encourage industries to grow to make FDI an attractive avenue to invest.

FDI plays a crucial role in enhancing the economic growth and development of the country. Moreover, FDI as a strategic component of investment is needed by India for achieving the objectives of its Second Generation Economic Reforms and maintaining the pace of growth and development of the economy.

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