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FOREIGN DIRECT INVESTMENT (FDI) IN INDIA

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ABSTRACT

This paper is made an attempt to analyse the trend of FDI flow into country. Sector wise and country wise analyse has been made. FDI is an important driver of economic growth of the country. India witnessed the significant growth in FDI reflect the impact of liberalization. In pre liberalization period, very restrictive policy was used and more focused on import substitution. Govt. put control on import in many ways such as imports were canalized, high tariffs were imposed which led to high cost of imported goods etc. after liberalization, more focus on outward oriented policy as well as reduce regulation and duties on import. . FDI inflows in to India has raised from US$4029 in 2001 to US$73455 in 2020. Major FDI inflow in India went from service sector followed by software and hardware and telecommunication. Service sector in India has been growing rapidly during last two decades. Growth in this sector has been higher than manufacturing and agriculture sector. After service sector, software and hardware and telecommunication attract good FDI flow in India. India is the 9th largest recipient of FDI among top 10 host countries in 2020. Singapore is top investing country in India with US$14.67 billion followed by Mauritius accounting for US$ 8.24 billion .Among states, Maharashtra received highest share of FDI followed by Karnataka and Delhi.

Key words – FDI, sectors, growth, India etc.

INTRODUCTION- capital formation is an important determinant of economic growth. While domestic investments add to the capital stock in an economy, foreign direct investment FDI) plays a complementary role in overall capital formation by filling gap between domestic saving and investment. Gross fixed capital formation had declined during 2011-12 and 2016-17. The trend reverse in 2017-18. The growth rate of gross fixed capital formation increased from 8.3% in 2016-17 to 9.3 % in 2017-18 and further rose to 10% in 2018-19. The rapid expansion of FDI by multinational enterprises (MNCs) since the mid- eighties may be attributed to significant changes in technologies, liberalization of trade and investment regimes, and deregulation and privatization of markets in many countries like India. Fresh investment, as well as merger and acquisitions, (M&A) play an important role in the cross- country movement of FDI.

LITERATURE REVIEW-

Azhar, S.(2012) analyses FDI in India and impact on growth in their research paper. It also focuses on the determinant and needs of FDI, year-wise analysis, sectoral analysis and sources of FDI and reasons. One of the economic aspects of globalization is the fact that increasing investment in the form of foreign direct investment. In the recent times due to the global recession most of the countries have not been able to pull investments. India has been able to attract better FDI's than the developed counties even during the crisis period also. Especially in the recent year the FDI in India has been following a positive growth rate. Since 1991 the govt. has focused on liberalization of policies to welcome foreign direct investments. These investments have been a key driver for accelerating the economic growth through technology transfer, employment generation, and improved access to managerial expertise, global capital, product markets and distribution network. FDI in India has enabled to achieve a certain degree of financial stability; growth and development to sustain and compete in global economy.

Singh, S.(2019) stated in his paper , Indian economy is one of the top emerging markets of the world. Five year ago it was considered as part of the fragile , but no longer. Since 2014, it has emerged as of the top foreign destination in the world with a significant rise in FDI. India has become one of the most attractive emerging markets globally. The gross FDI received from April 2000 to June 2018 is USD563320 million. This flow of fund over the year helped the country in advancement of technology, skill upgradation, employment generation , better infrastructure and management.

T**eli, R.B.** define in his paper, FDI flow for the period of 1991 to 2012. Total FDI flow have been raised from US$ 133 million in 1991-1992 to US$27841 million in the year 2008-09 and the share of direct foreign investment through approvals in equity etc.stood at 65.79% and portfolio investment was 34.21%.projections show that total inflows will be US$ 46098 million in 2015-16. Mauritius and Singapore tops in FDI inflows and the FDI inflows in service sector were in highest position. They have positive impact on the related economic indicators on Indian economy. GOI should attract more FDI through favourable policies and avoid uncertainties.

Kumar, V.(2012)foreign direct investments are indispensable factors that help in boosting the growth of Indian economy. With the introduction of liberalization policy under the finance ministry of Dr. Manmohan Singh in 1991 & with further few policy reforms, India has witnessed a change in the flow and direction of foreign direct investment into the country. India has witnessed the increase in the flow of FDI from US$ 4029 million in 2000-01, to US$ 36396 million on 2013. Furthermore India has witnessed a year on year growth of 24.2 % in FDI to touch US$ 3.995 billion in April-May 2013 as against US$ 3.18 billion during the same period in 2012. However, the analysis show that the country is still far behind in comparison to some of the developing countries like China. The continuous upsurge in foreign direct Investment , allowed across the industries and sectors, has proven that foreign investors have faith in the resilience of Indian markets. Furthermore, the study indicates that flow of FDI and GDP are positively correlated with each other and the country's GDP is showing a positive movement with flow of foreign direct investment in India. The flow of FII and FDI also shows the positive correlation with each other.

Vyas, A.V .,(2015) FDI in India has a significant role in the economic growth and development of India. FDI in India to various sectors can attain sustained economic growth and development through creation of job , expansion of existing manufacturing industries. The inflow of FDI in service sectors and construction and development sector, from April 2000 to June 2015 attained substantial sustained economic growth and development through creation of jobs in India. Computer, software & hardware and drugs & pharmaceutical sector were the other sectors to which attention was shown by foreign direct investment. The other sectors in India economy the foreign direct investor interest was, in fact has been quit poor.FDI has helped to raise to output , productivity and employment in some sectors especially in service sector . Indian service sector is generating the proper employment options for skilled worker with high perks. On the other side banking and insurance sector help in providing the strength to the Indian economic condition and develop the foreign exchange system in country. FDI is always helps to create employment in the country and also support the small scale industries also and helps country to put an impression on the world wide level through liberalization and globalization.

ENTRY ROUTE FOR INVESTMENT- there are two route for foreign investment in India.

AUTOMATIC ROUTE- the non-resident investor or Indian company does not require any approval from government of India for investment.

GOVERNMENT ROUTE- prior approval of the government of India is required. Proposal for foreign investment under government route, are considered by respective administrative ministry/department.

PROHIBITED SECTORS- As per the FDI policy, there are eight sectors where FDI is prohibited-

1) Lottery business

2) Gambling and betting

3) Chit funds

4) Nidhi Company

5) Trading in transferable development rights(TDS)

6) Real estate business or construction of farm house

7) Manufacturing of cigars, cheroots, cigarillos and cigarettes, of tobacco or, of tobacco substitutes

8) Activities/sectors not open to private sector investment e.g. Atomic Energy and Railway Transport (other than mass Rapid the Transport Systems).

Foreign Technical Collaboration in any form including licensing for franchise, trademark, brand name, management contract is also prohibited for lottery business, gambling and betting activities.

LIBERALISATION OF FDI IN INDIA

India economic policy reforms have played a vital role in the performance of economy since 1991. Pre-liberalization investment policy had under scored due to extensive government intervention. Pre liberalization investment policy was restrictive in nature and needed to be liberalized. In 1991, investment policy in India gradually liberalized increasing the receptiveness of the economy to foreign investment flows. FDI upto 51 per cent allowed under automatic route in 34 priority sectors. Government of India replace FERA,1973 with Foreign Exchange Management Act(FEMA) 1999, that facilitate foreign trade and payment and promote foreign exchange market. The government opened a lot of new sectors to FDI from 2000 to 2005 such as FDI in defence production, insurance and print media were allowed upto 26 percent. E-commerce, voice mail, electronic mail were allowed to 100 percent subject to 26 percent disinvestment in 5 year. 100% FDI was permitted for Indian real estate sector in 2005, which had led to a boon in investment and developmental activities in later year. In 2006, FDI was allowed to 51% in single brand retail subject to prior approval. It was a vital decision and brought huge transformation for the Indian economy and retail sector as well. In 2012, govt. increase FDI limit to 100% in single brand retail via approval route from 51% and approved 51% FDI in multi brand retail.

In 2014, government launched the campaign like make in India, skill India and further start up India in 2016 to boost the entire investment environment. GOI increased FDI limit from 26% to 49% in insurance sector in 2014. FDI policy provisions has been progressively liberalized across various sector in recent year to make India an attractive destination. These reforms contribute in attracting more investment flow in India. Total FDI into India from 2014-15 to 2018-19 has been US$ 286 billion as compared to US$ 189 billion in the 5 year period prior to that (2009-10 to 2013-14).

The world bank released its latest report ease of doing business report (DBR,2020) on 24^{th} October 2019, India has recorded a jump of 14 position against its rank of 77 in previous year to be placed now at 63^{rd} rank among 190 countries assess by world bank.

In 2019, govt. liberalized major FDI norms in coal mining and related infrastructure, contract manufacturing, single brand retailing and digital media. GOI allowed 100% FDI in contract manufacturing and coal mining and other related activities related to its sale related infrastructure via automatic route and 26% FDI for digital media has been approved. As per latest policy issued by DIPP, 100% FDI allowed in case of single brand retail through automatic route. However, where FDI is more than 51%, at latest 30% of the value of goods should be procured from India. This is viewed to promote domestic sector in India.

In 2020, Government notified changes in FDI rules, which made prior approval of the govt. mandatory for foreign investment from countries that share boarder with India, to prevent opportunistic takeover of domestic firms amid COVID-19 pandemic under FEMA law.

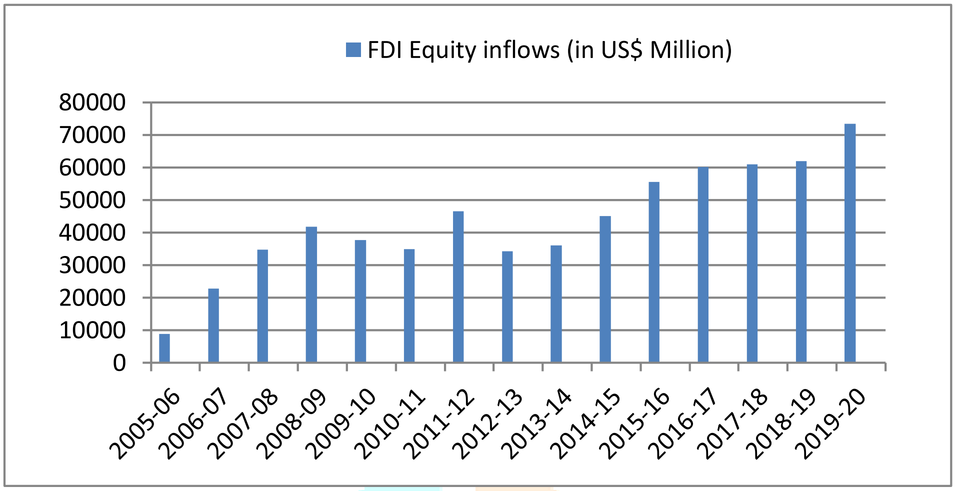
TREND OF FDI INFLOW IN INDIA 2000 -2020- In post liberalization period , Foreign investment increase tremendously and give utmost priority to FDI inflows The FDI inflows from 1991-1992 to 1999-2000 had been recorded amount to US$15,483 million. Foreign direct investment from the period of 2000 to 2002 has been increased from US$ 4029 million to US$ 6130 million but next two consecutive years (2002 to 2004) FDI have moved downward to US$ 4,322 million as shown in table 1. From the period of 2004, FDI had been increased and highest growth observed in 2006-2007 of 155%.

Table no -1. Total FDI flows into India from 2000 to 2020

S.No	Financial Year (April – March)	Total FDI Flows into India	%age Growth over previous year
F.Y- 2000-01 TO 2019-20		(in US$ Million)	(In US$ terms)
1	2000-01	4,029	-
2	2001-02	6,130	(+)52%
3	2002-03	5,035	(-)18%
4	2003-04	4,322	(-)14%
5	2004-05	6,051	(+)40%
6	2005-06	8,961	(+)48%
7	2006-07	22,826	(+)155%
8	2007-08	34,843	(+)53%
9	2008-09	41,873	(+)20%
10	2009-10	37,745	(-)10%
11	2010-11	34,847	(-)08%
12	2011-12	46,556	(+)34%
13	2012-13	34,298	(-)26%
14	2013-14	36,046	(+)5%
15	2014-15	45,148	(+)25%
16	2015-16	55,559	(+)23%
17	2016-17	60,220	(+)08%
18	2017-18 (P)	60,974	(+)1%
19	2018-19 (P)	62,001	(+)2%
20	2019-20 (P)	73,455	(+)18%
<u>CUMULATIVE TOTAL</u> (from April,2000 to March ,2020)		680,919	-

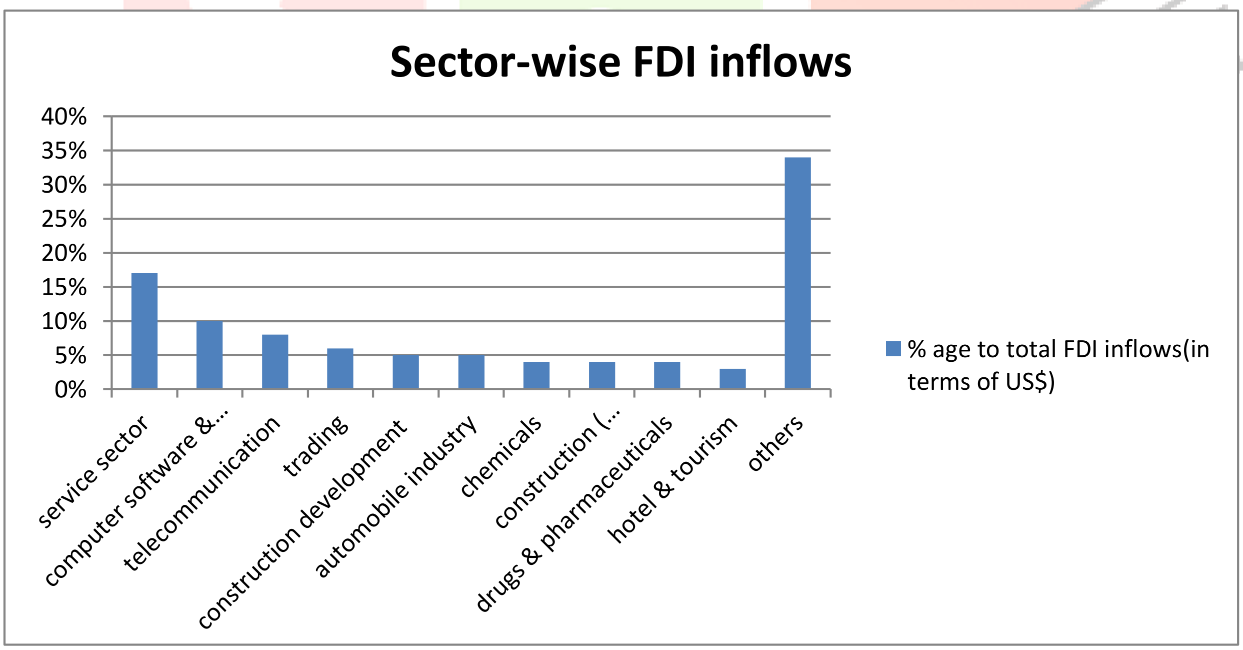
SOURCE- RESERVE BANK OF India (RBI) Bulletins and Department of Industrial policy and promotion

FIGURE- 1- SHOW FDI INFOWS INTO INDIA FROM F.Y 2005-06 TO F.Y 2019-20



Furthermore, FDI decrease from two consecutive years from the period 2009bto 2011. Foreign direct investment remains high in 2008 despite of global financial crises. Global foreign direct investment flow jumped by 38% to $ 1,762 billion in 2015, their highest level since global economic and financial crisis of 2008-2009. FDI has increasing from 2014 to 2020. FDI equity inflow during fourth quarter (Jan to March) of financial year 2019-20 has been US$13,208 million. Cumulative FDI equity inflow into the India from April 2000 to March 2020 has been US$ 469,998 million, excluding amount of remittance through RBI's NRI scheme. Overall , India has fluctuating FDI inflows, India has ranking among top 10 hosting economies. US remains the largest recipient of FDI , attracting $ 251 followed by China and Singapore with $ 140 and $110 respectively in 2019.

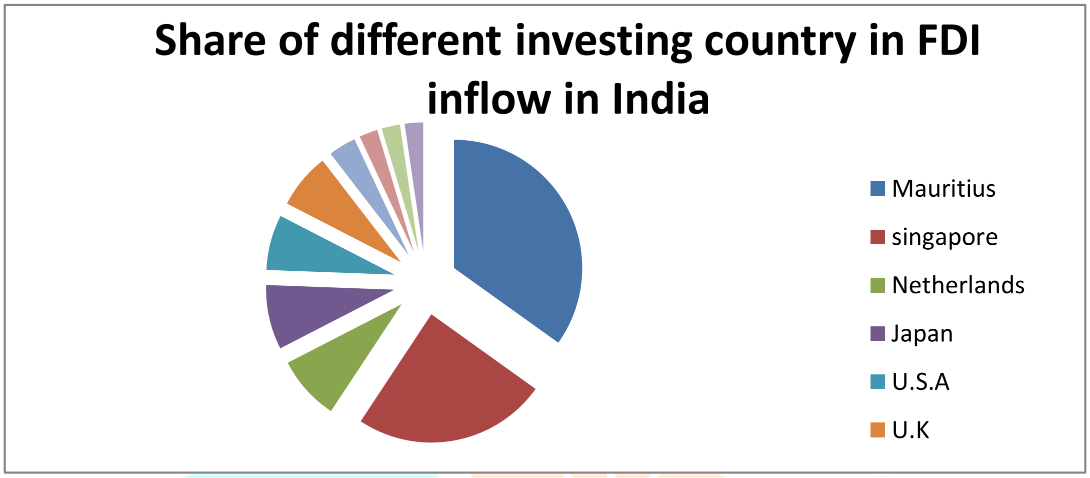
FIGURE 2- SHOW SECTOR WISE FDI INFLOW



Source- DIPP(Department of industrial policy and promotion)

Sectoral composition of FDI – after economic reforms, manufacturing sector was dominating sector in initial period but now service sector become dominating sector and account major portion of FDI. Service sector attract highest FDI inflows of 55,429 cr. in 2019-20 and total growth percentage has been recorded 17% in terms of US dollar. This sector accounting for about two third of total FDI into India. The share of service sector exceed 50% of gross state value added in 15 out of 33 states an UTs, with this share 80% IN Delhi and Chandigarh according to economic survey 2020. After service sector, computer software and hardware recorded 10% growth of total inflows with 54,250 Cr. in 2019-20 followed by telecommunication and trading sector with 8% and 6% growth respectively.

FIGURE 3- SHARE OF INVESTING COUNTIES IN INDIA



SOURCE- DPIIT

Table no-2. TOP INVESTING COUNTRIES OF FDI EQUITY INFLOWS (F.Y. 2019-20)

Name of Country	%age to total Inflows
Mauritius	**30%**
Singapore	**21%**
Netherlands	**7%**
Japan	**7%**
U.S.A.	**6%**
U.K	**6%**
Germany	**3%**
Cyprus	**2%**
France	**2%**
Cayman Islands	**2%**

SOURCE- DPIIT(DEPARTMENT OF PROMOTION OF INDUSTRIAL AND INTERNAL TRADE)

Singapore remains the top source of foreign direct investment in India for two consecutive years. In 2018 -19 FDI record US$ 16.22 billion and in 2019-20 India attracted US$14.67 billion from Singapore followed by Mauritius and then Netherlands with US$8.24 billion and US$ 6.50 billion respectively. Whereas in 2017-18, FDI inflows from Mauritius stood at US$ 15.94 billion and from Singapore US$12.18 was be recorded.

Conclusion- FDI significantly contribute in development of Indian economy. It helps in reducing BOP deficit. FDI flows into India from various sectors. Service sector play a major role in capturing more FDI flow in India. This sector has been the largest recipient of FDI in India with flow of US$ 82,003 million from April 2000 TO March 2020. This sector continue outperform, contributing around 55% to total GVA as well as to total GVA growth and two third share of total FDI inflows into India and about 38% of total exports. Govt. introduce many incentives and schemes time to time to boost the growth of FDI in India. These incentives helps in creating a conducive environment for investment , opening up new sector for foreign investment, modern and efficient infrastructure .govt. take amendments in FDI policy with a view to make it more investor friendly. Foreign Investment facilitate portal has been introduce by govt. for investor to facilitate the foreign direct investment. Govt. take every steps to ensure that India remains a favorable and attractive investment destination. India secure 9th position among top 10 host economies in FDI inflows.

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