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A Study on FDI and its impact on national financial growthand the role of democratic policies on economic growth.

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Abstract

This article throws light on the FDI and its impact on economic development. Also, the main focus here is on the government strategies and policies that are adopted with regard to FDI and a democratic policy regime has sustained FDI attraction as a favourable destination for foreign investors. This research paper aims to examine the impact of FDI on the Indian economy, particularly after the pandemic situation and economic reforms adaptation of economic reforms, and analyses the challenges to position itself favorably in the global competition for FDI. The paper provides the major policy implications from this analysis, besides drawing attention to the complexities in interpreting FDI data in India.

Objectives

- To study the impact of FDI on Indian economy
- To study the trends and pattern of flow of FDI.
- To assess the determinants of FDI inflows.
- To evaluate the impact of democratic policy on the Indian economy.
- To understand the measures and initiatives taken by the government of India to attract, and monitorFDI to promote economic conditions of the nation
- To know the issues that India needs to address in FDI policies.

Introduction

Foreign direct investment is a lead economic component that indicates the economy's investment climate and helps build investors' confidence domestically and internationally. It is a major source ofnon-debt financial resources for the economic development of a country.

FDI promotes technological advancements, enhances capital stocks, boosts the infrastructural base. FDI in large scope provides better career prospects to the youth. FDI is a major source of non-debt financial resources and has radically developed as the major form of international capital transfer.

FDI determinant in the country

Frame work of policies according to the political and economic culture and requirements of the hostcountry

The Foreign investors mainly monitor and check for political and social stability and India being thelargest democratic country with variant and ancient civilization depicted in its culture makes forcingenlistment ingesting and beneficial.

Inter-national agreements and exchange of goods and services, policies and trade policies (tariff andnon-tariff barriers).

Improvisation policy.

FDI inflow in India

Since the liberalization of market by the government in 1991, several sectors are opened up to FDIpartially or wholly. since then government of India took to several policies to ease the FDI procedure. According to Economic Survey of India reports, currently, India ranks among the list of100 countries in ease of doing business. In 2019, India was among the top ten receivers of FDI totaling $49 billion inflow per UN report an increase of 16% from 2018.

Political and economic resolutions brought in a huge change in FDI inflow, for instance in February2020, the DPIIT notified 100% FDI insurance intermediaries. Also, they came up with a new rule mentioning the entity of any company shares a land border or if the beneficial owner is a citizen of such a country can invest only under the approval of the Government of India

According to the economic survey report , the total FDI inflow from April to August 2020 is $35,73billion despite GDP growth contracted 23.9% .
There are three routes through which FDI flows into India. They are described in the following table

Category 1	Category 2	Category 3
100% FDI permitted through **Automatic Route**	Up to 100% FDI permitted through **Government Route**	Up to 100% FDI permitted through **Automatic + Government Route**

Automatic Route FDI

In the automatic route, the foreign entity does not require the government's prior approval or the RBI.Examples:

- Medical devices: up to 100%
- Thermal power: up to 100%
- Services under Civil Aviation Services such as Maintenance & Repair Organizations

Government Route FDI

Under the government route, the foreign entity should compulsorily take the approval of the government. It should file an application through the Foreign Investment Facilitation Portal, which facilitates single-window clearance. This application is then forwarded to the respective ministry ordepartment, which then approves or rejects the application after consultation with the DPIIT.

Examples:

- Broadcasting Content Services: 49%
- Banking & Public sector: 20%
- Food Products Retail Trading: 100%
- Core Investment Company: 100%
- Multi-Brand Retail Trading: 51%
- Many more

Sectors where FDI is prohibited

There are some sectors where any FDI is completely prohibited. They are:

- Agricultural or Plantation Activities (although there are many exceptions like horticulture,fisheries, tea plantations, Pisci culture, animal husbandry, etc.)
- Atomic Energy Generation
- Lotteries (online, private, government, etc.)
- Any Gambling or Betting businesses
- Cigars, Cigarettes, or any related tobacco industry

A Brief Review of Literature

Surabhi Sharma gave detailed inputs in "FDI and economic growth -2016" about FDI inflow and itsimpact on change in economic structure. FDI reforms were very crucial at this juncture which will lead to further FDI inflows which already increased from around US$36 billion in FY2014 to US$55.5 billion in FY2016 due to recent initiatives of the government. Pro-active reforms oriented decisions taken by the government, particularly for easing of FDI rules in various sectors of the economy are going to push employment generation,

Ahluwalia, M. S. (2011), "FDI in multi-brand retail is good, benefits farmers", The Times of India http://timesofindia.indiatimes.com/business/india-business/FDI-in-multi-brand-retail-is-good-benefits-farmers-Montek- /article show/7328844.cms#ixzz1EmeD95sm".

A Brief Review of The Literature: Agarwal and Khan conducted the study on "Impact of FDI on GDP: A Comparative Study of China and India", the study found that 1% increase in FDI would result in 0.07%increase in GDP of China and 0.02% increase in GDP of India. We also found thatChina's growth is more affected by FDI, than India's growth [1].

Abhishek Sikdar , in his article to mention that FDI is good for growth but not the utmost essentialfeature for development, tried to put forth theoretical analysis for the same June 18, 2021, 3:38 PM IST Abhishek Sikdar in Economic Update, Business, Economy, TOI

Basu P., Nayak N.C, Archana (2007): "Foreign Direct Investment in India Emerging [2] Horizon",Indian Economic Review, Vol. XXXXII. No.2.

Study of Implications of FDI on Indian Economy by Srikant Misra dated February 26, 2012, points out the negative and positive implications that affect the economic scenario and measures the level ofpredominance by the factors for economic contribution secular country with special reference to India. The main purpose of the study is to investigate the impact of FDI on economic growth in India, fromthe period of 1990 to 2010.

Study Methodology

Secondary analysis has been carried out based on analysing various literature, study and correlative analysis based on government policies and data provided by government of India in its magazines and official reports released.

We treat estimates of the effect of democracy on FDI from previous studies as observations of our dependent variable. We test whether the observed mediating variables systematically influence the estimated effects of democracy on FDI in a manner consistent with predictions in the literature. Therefore, meta-regression analysis enables us to adjudicate different theoretical mechanisms based on observed mediating variables in prior studies.

We reach three major findings. First, our research demonstrates which mechanisms influence the differences between regime types in attracting FDI. Second, we find that the data generation process differs between two widely used FDI measures the level of net FDI inflows and the share of net inflows over the gross domestic product (GDP). Among the ten mediating variables tested, only three (property rights, exchange rate volatility, and political constraints) receive robust support among studies of the level of FDI inflows, and only two (economic growth and domestic political risk) receive relatively robust support among studies of FDI inflows as a share of GDP. Finally, we uncover strong and nuanced patterns of publication bias in the literature.

FDI is positively adopted and progressive in a democratic country as democracies have more open media, which allows the beneficiaries of FDI to punish leaders who renege on agreements with foreigninvestors. regular elections, press freedom, and transparency of political decision-making reduce political and economic uncertainty. These characteristics make economies in democratic states more predictable over the long run and allow them to address exogenous shocks more effectively Finally, democratic politics empower workers. Because workers as median voters benefit from FDI more thananti-FDI local businesses, democracies are more open to FDI

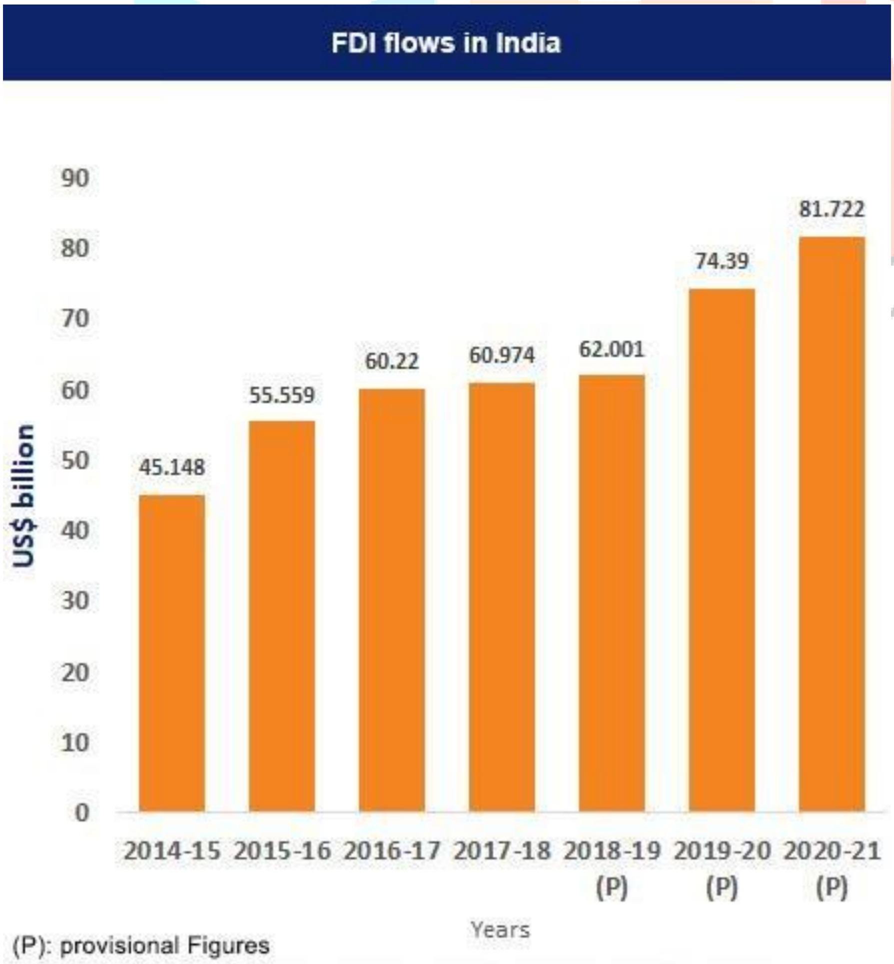
In contrast, scholars also gave few reasons to why democracies may attract less FDI compared to autocracies, and more stringent antitrust regulations that limit oligopolistic or monopolistic multinational enterprises.

Representative democracies find themselves more constrained by both societal interests hurt by foreign investments and critics of FDI when it comes to offering generous financial and fiscal incentives to foreign investors.

autocracies, interested in the economic benefits of FDI, are more likely to shield multinational enterprises from popular pressures for higher wages and stronger labor rights. While multinational firms in extractive industries prefer to avoid democracies, as democracies experience more frequent government turnovers and, arguably, less stable business environments;

Data Analysis:

After a steady decline in 2020 further accelerated by the COVID-19 crisis, global FDI flows1 surged 88% in 2021 (Figure 1),reaching USD 1 815 billion, surpassing their pre-pandemic levels by 37%



II. FINANCIAL YEAR-WISE FDI INFLOWS DATA:

(Data on FDI have been revised since 2000-01 with expended coverage to approach International BestPractices)

S. NO.	Financial Year (April - March)	FOREIGN DIRECT INVESTMENT (FDI)						Investment by FII's Foreign Institutional investors Fund (net)
		Equity				FDI FLOWS INTO INDIA		
		FIPB Route/ RBI's Automatic Route/ Acquisition Route	Equity capital of unincorporated bodies #	Re-invested earnings +	Other capital +	Total FDI Flows	%age growth over previous year (in US$ terms)	
FINANCIAL YEARS 2000-01 TO 2021-22								
1	**2000-01**	2,339	61	1,350	279	**4,029**	-	1,847
2	**2001-02**	3,904	191	1,645	390	**6,130**	**(+) 52 %**	1,505
3	**2002-03**	2,574	190	1,833	438	**5,035**	**(-) 18 %**	377
4	**2003-04**	2,197	32	1,460	633	**4,322**	**(-) 14 %**	10,918
5	**2004-05**	3,250	528	1,904	369	**6,051**	**(+) 40 %**	8,686
6	**2005-06**	5,540	435	2,760	226	**8,961**	**(+) 48 %**	9,926
7	**2006-07**	15,585	896	5,828	517	**22,826**	**(+) 155 %**	3,225
8	**2007-08**	24,573	2,291	7,679	300	**34,843**	**(+) 53 %**	20,328
9	**2008-09**	31,364	702	9,030	777	**41,873**	**(+) 20 %**	-15,017
10	**2009-10**	25,606	1,540	8,668	1,931	**37,745**	**(-) 10 %**	29,048
11	**2010-11**	21,376	874	11,939	658	**34,847**	**(-) 08 %**	29,422
12	**2011-12**	34,833	1,022	8,206	2,495	**46,556**	**(+) 34 %**	16,812

13	**2012-13**	21,825	1,059	9,880	1,534	**34,298**	**(-) 26%**	27,582
14	**2013-14**	24,299	975	8,978	1,794	**36,046**	**(+) 5%**	5,009
15	**2014-15**	30,933	978	9,988	3,249	**45,148**	**(+) 25%**	40,923
16	**2015-16**	40,001	1,111	10,413	4,034	**55,559**	**(+) 23%**	-4,016
17	**2016-17**	43,478	1,223	12,343	3,176	**60,220**	**(+) 8%**	7,735
18	**2017-18**	44,857	664	12,542	2,911	**60,974**	**(+) 1%**	22,165
19	**2018-19**	44,366	689	13,672	3,274	**62,001**	**(+) 2%**	-2,225
20	**2019-20**	49,977	1,757	14,175	8,482	**74,391**	**(+) 20%**	552
21	**2020-21 (P)**	59,636	1,452	16,935	3,950	**81,973**	**(+) 10%**	38,725
22	**2021-22 (P) (up to December , 2021)**	**43,175**	**1,065**	**13,129**	**2,970**	**60,339**	**-**	**-737**
CUMULATIVE TOTAL (from April, 2000 to December, 2021)		**5,75,688**	**19,735**	**1,84,357**	**44,387**	**8,24,167**	**-**	**2,52,790**

Source: *(i) RBI's Bulletin for December, 2021 dt.15.11.2021 (Table No. 34 – FOREIGN INVESTMENT INFLOWS).*

(ii) Inflows under the acquisition of shares in March, 2011, August, 2011 & October, 2011, include net FDI on account oftransfer of participating interest from Reliance Industries Ltd. to BP Exploration (Alpha).

(iii) RBI had included Swap of Shares of US$ 3.1 billion under equity components during December 2006.

(iv) Monthly data on components of FDI as per expended coverage are not available. These data, therefore, are notcomparable with FDI data for previous years.

(v) Figures updated by RBI up to December, 2021. Figures are provisional.

(vi) Data in respect of 'Re-invested earnings' & 'Other capital' are estimated as average of previous two years. '#' Figures for equity capital of unincorporated bodies are estimates. (P) All figures are provisional

FDI inflows in India:

- FDI into India dipped marginally by 1.4% (about Rs.76,800 crore) during October-December period of 2019-20.
- The sectors that attracted maximum FDI inflows during the nine months include services, computer software and hardware, telecommunications, automobile andtrading.
- Singapore continued to be the largest FDI source in India during the April-December period of FY2019-20.
- It is followed by Mauritius, the Netherlands, Japan and the US.

The Data analyse above are the resultant of the various economic policies that government haveinitiated in order to improve the FDI , the major ones are listed below:

1. Government schemes like production-linked incentive (PLI) scheme in 2020 for electronics manufacturing, have been notified to attract foreign investments.
2. In 2019, the amendment of FDI Policy 2017 by the government, to permit 100% FDI under automatic route in coal mining activities enhanced FDI inflow.
3. FDI in manufacturing was already under the 100% automatic route, however, in 2019, the government clarified that investments in Indian entities engaged in contract manufacturing is also permitted under the 100% automatic route provided it is undertaken through a legitimatecontract.
4. Further, the government permitted 26% FDI in digital sectors. The sector has particularly high return capabilities in India as favourable demographics, substantial mobile and internet penetration, massive consumption along technology uptake provides great market opportunityfor a foreign investor.
5. Foreign Investment Facilitation Portal (FIFP) is the online single point interface of the Government of India with investors to facilitate FDI. It is administered by the Department for Promotion of Industry and Internal Trade, Ministry of Commerce and Industry.
6. FDI inflow is further expected to increase
   - As foreign investors have shown interest in the government's moves to allowprivate train operations and bid out airports.
   - Valuable sectors such as defence manufacturing where the government enhanced the FDI limit under the automatic route from 49% to 74% in May 2020, is also expected to attract large investments going forward.

Regulatory Framework for FDI in India

- Companies Act
- Securities and Exchange Board of India Act, 1992 and SEBI Regulations
- Foreign Exchange Management Act (FEMA)
- Foreign Trade (Development and Regulation) Act, 1992
- Civil Procedure Code, 1908
- Indian Contract Act, 1872
- Arbitration and Conciliation Act, 1996
- Competition Act, 2002
- Income Tax Act, 1961
- Foreign Direct Investment Policy (FDI Policy)

Agencies that monitor FDI trends across the world

- UN Conference on Trade and Development (UNCTAD) summarise FDI trends across the world.
- The Organisation for Economic Cooperation and Development (OECD) It reports on bothinflows and outflows.
- The IMF published its first Worldwide Survey of Foreign Direct Investment Positions in the year 2010. This annual survey covers investment positions for 72 countries.

The recent modifications made in India's FDI rules

- To curb "opportunistic takeovers" of domestic firms at a time when coronavirus pandemic is upsetting the economies across the world. On 18th April, the Finance Ministry has amended its existing FDI policy, to make prior government approval mandatory for foreign investments from countries that share land borders with India. Countries that share India's land borders are China, Bangladesh, Pakistan, Bhutan, Nepal, Myanmar and Afghanistan.
- Of these, China has the highest investment in India. According to the Department for Promotion of Industry and Internal Trade (DPIIT) data, India received FDI from China worth $2.34 billion (Rs.14,846 crore) between April 2000 and December 2019. India has attracted Rs.48 lakh from Bangladesh, Rs.18.18 crore from Nepal, Rs.35.78 crore from Myanmar, and Rs.16.42 crore fromAfghanistan.
- There weren't any investments from Pakistan and Bhutan.

- The government has been liberalizing policies to include more items in the automatic list rather than the restrictive list.In December 2019, the government permitted 26% FDI in digital sectors. In August 2019, the government permitted 100% FDI under the automatic route in coal mining for open sale (as well as in developing allied infrastructures like washeries).
- In the Union Budget 2019-2020, the Indian Government had proposed opening FDI in aviation,media, and insurance sectors in consultation with all stakeholders.
- In March 2020, the government permitted non-residential Indians (NRIs) to acquire up to 100%stake in Air India.
- In February 2019, the government of India released the Draft National E-Commerce Policy, whichencourages FDI in the marketplace model of e-commerce.100% FDI is also permitted for insurance intermediaries.
- In September 2018, the government released the National Digital Communications Policy, 2018,which aims to increase FDI inflows in the telecommunications sector to $100 billion by 2022.
- In January 2018, the government allowed foreign airlines to invest in Air India up to 49% with government approval. The investment cannot exceed 49% directly or indirectly.

- Government approval is not required for FDI up to an extent of 100% in Real Estate services.

The area of concern pertaining to FDI inflows

- Make in India, which was launched in 2014, with an objective to increase the manufacturing sector‘s share in the GDP from 16% to 25% by 2022 and also create an additional 100 millionjobs , though increased FDI from $16 billion in 2013-14 to $36 billion in 2015-16 . However, FDI showed no significant progress since then and have not contributed to India's industrialization.
- FDIs in the manufacturing sector showed a decline. In 2017-18, they were just above $7 billion,as against $9.6 billion in 2014-15. In contrast, the service sector attracted more FDI.
- Labour regulations in India are too complicated for plants with more than 100 employees. Government's approval is mandatory under the Industrial Disputes Act of 1947 before laying off any employee and the Contract Labour Act of 1970 requires government and employee approval for a simple change in employee's job description between April-September 2021, India recorded the highest FDI equity inflow from Singapore (US$ 8 billion), followed by the US (US$ 4.63 billion), Mauritius (US$ 4.33 billion), the Cayman Islands (US$ 2.15 billion), Netherlands (US$
  2.14 billion), the UK (US$ 1.15 billion) and Japan (US$ 804 million).Some of the recent investments and developments in the FDI space are as follows:

n January 2022, Google announced an investment of US$ 1 billion in Indian tele company Bharti Airtel, which includes an equity investment of US$ 700 million for 1.28% stake in the company, and US$ 300 million for potential future investment in areas like smartphone access, networks, and the cloud..

- Canada's pension fund investment board invested Rs. 1,200 crore (US$ 160.49 million) as ananchor investor in the IPO of multiple Indian companies - One 97 communication (Paytm), Zomato, FSN E-Commerce Ventures (Nyaaka), and PB Fintech.

According to the Ministry of New and Renewable Energy (MNRE), India's green energy industryreceived FDI worth US$ 7.27 billion from 2014-15 till June 2021.

The following investments were made in January 2022:

- Indian all-electric commercial original equipment manufacturer (OEM) EVage raised US$ 28million from US-based venture capital firm RedBlue Capital.
- Swiggy raised US$ 700 million led by investment management company Invesco, with thefood delivery startup now valued at US$ 10.7 billion.
- Analytic startup Fractal raised $360 million from private investment firm TPG Capital,elevating Fractal to unicorn status.

- B2B platform Moglix raised US$ 250 million, led by investors Tiger Global and Alpha WaveGlobal along with Hong Kong-based Ward Ferry.
- Ola Electric raised US$ 200 million, led by Tekne Private Ventures, Alpine Opportunity Fund and Edelweiss, which now values the company at US$ 5 billion.
- Social commerce grocery start up Deal share raised US$ 165 million from Tiger Global andAlpha Wave Global.
- HR tech platform Darwinbox raised US$ 72 million from investors, led by US-basedTechnology Crossover Ventures (TCV).

GOVERNMENT INITIATIVES

The Government of India has taken several initiatives across to improve the FDI inflows in thecountry. Some of these are:

The Government of India is considering easing scrutiny on certain foreign direct investments fromcountries that share a border with India.

The Department for Promotion of Industry and Internal Trade (DPIIT) is planning to approach theUnion Cabinet to seek its approval on changes in FDI policy in the insurance sector and wants to allow FDI up to 20% in the LIC of India.

The implementation of measures like PM Gati Shakti, single window clearance, and GIS-mappedland bank is expected to further push FDI inflows in 2022.

The government is likely to introduce at least three policies as part of the Space Activity Bill in2022. This Bill is expected to clearly define the scope of foreign FDI in the Indian space sector.

In September 2021, India and the UK agreed to an investment boost to strengthen bilateral ties for an‘Enhanced Trade Partnership’.

In September 2021, the Union Cabinet announced that to boost the telecom sector, they’ll allow 100%FDI via the automatic route in, up from the previous 49%.

In August 2021, the government amended the Foreign Exchange Management (non-debt instruments)Rules, 2019, to allow the 74% increase in the FDI limit in the insurance sector.

Conclusion

Foreign Direct Investments play a crucial for in accelerated economic growth. In India, post the 1991economic reforms, the regulatory environment in terms of Foreign Direct Investments has been consistently eased to make it more and more investor-friendly and to supplement domestic capital, technology, and skills.

Recent FDI policy pronouncements in various sectors of the economy are expected to attract a chunkof investments and create additional jobs as well as induce employment and spur up the economy

In terms of attractiveness, investors ranked India #3; ~80% of investors have plans to invest in India in the next 2-3 years, while ~25% reported investments worth >US$ 500 million, the Economic Timesreported

India is expected to attract foreign FDI of US$ 120-160 billion per year by 2025, according to a CIIand EY report. Over the past 10 years, the country witnessed a 6.8% rise in GDP with FDI increasing to GDP at 1.8%.

Further, as per a Deloitte report published in September 2021, India remains an attractive market forinternational investors both in terms of short-term and long-term prospects.

India ranked 43rd on the Institute for Management Development's (IMD) annual World Competitiveness Index 2021. According to the IMD, India's developments in government efficiencyare primarily due to relatively stable public finances (despite COVID-19-induced challenges), and optimistic sentiments among Indian business stakeholders concerning the funding and subsidies offered by the government to private firms.

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