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TREND ANALYSIS OF FOREIGN CAPITAL WITH SPECIAL REFERENCE TO FDI INTO INDIA

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ABSTRACT

Foreign Direct investment plays a very important and constructive role in a country's economic development. India has emerged as the fastest growing major economy in the world as per the Central Statistics Organization (CSO) and International Monetary Fund (IMF). The role FDI as an important driver vital for all spheres of economic growth. The foreign direct investment (FDI) is a major source of non-debt financial resource for the economic development of India. The Indian government on its own would not be able to develop world class technology, expertise and infrastructure and other allied facilities because of huge investment requirement. This necessitated the Government to take initiatives to encourage foreign direct investment in order to complement domestic capital, technology and skills, employment generation etc., for accelerated economic growth. Foreign direct investment (FDI) plays a significant role in giving leverage to the economy to the face the challenges of global business world. In turn the foreign companies who invest in India to take benefit of relatively lower wages, special investment privileges such as tax exemptions, etc. According to a recent survey by the United Nations Conference on Trade and Development (UNCTAD), India has conspicuously emerged out as the second most popular and preferable destination in the entire world, after China, for highly profitable foreign direct investment The Indian government's favourable policy system in respect of foreign investment and the vigorous business environment have enabled that foreign capital keeps flowing into the country. This paper analyses the trend of growth in FDI from the year 1994 to 2015.

Key words: FDI, economic growth, domestic capital foreign investment, business environment.

Introduction

There is a dire need for foreign capital because in the developing countries like India, domestic capital is very inadequate for the purpose of economic growth. This foreign capital is seen as a bridge of filling in gaps between the domestically available supplies of saving, foreign exchange, government revenue and the planned investment necessary to achieve development targets. Foreign investment meets the gap in financial, managerial and technical expertise. Foreign direct investment (FDI) or foreign investment refers to the net inflows of Investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equality capital, reinvestment of earnings, other long-term capital and short-term capital as shown in the balance of payments, (as per the World Bank Definition). According to Indian policy for foreign investment, It is usually participation in management, joint-venture, transfer of technology and expertise. Direct investment excludes investment through purchase of shares.

The government has taken many initiatives in recent years such as relaxing FDI norms across sectors such as defense, PSU oil refineries, telecom, power exchanges, and stock exchanges, among others. The swift and steadily emerging economy of India in majority of its sectors, has made India one of the most prominent and popular destinations in the whole world, for Foreign Direct Investment. The relaxations in the diverse foreign investment restrictions, liberalization of trade policies, the ever-expanding markets, development in technology and telecommunication, have made India one of the most fascinating destination for the most dynamic, lucrative, and safe foreign investment. In India, FDI is considered as an instrumental tool for growth and development which helps in achieving self-reliance in various sectors and in overall development of the economy. Under Indian economic scenario it is vital for bridging the gap between the existing resources or funds and the required resources or funds. It plays an significant role in the development of a country not only as a basis of capital but also for boosting the competitiveness of the economy through transfer of expertise,technology,knowledge, infrastructure, increasing productivity and generating new employment opportunities.

Current standing of FDI in India

The government has continuously changing India's Foreign Direct Investment (FDI) policy regime by enhancing FDI limits in various sectors like Defence, Civil Aviation etc. and the FDI limit in different sectors is varies according to suitability of host sector. Further, FDI is also allowed through two different routes namely, Automatic and through the Foreign Investment Promotion Board (FIPB). In the automatic route, foreign entities do not need the prior approval of the government to invest. However, they have to inform the RBI about the amount of investment within a stipulated time period. In specific sectors, FDI is through the FIPB or the Government route where the FIPB has to approve each foreign investment.

The government has recently made changes to the Foreign Direct Investment (FDI) policy regime by enhancing FDI limits in various sectors like Defence, Civil Aviation etc. The FDI limit in various sectors is not uniform. Further, FDI is also allowed through two different routes namely, Automatic and through the Foreign Investment Promotion Board (FIPB). In the automatic route, foreign entities do not need the prior approval of the government to invest. However, they have to inform the RBI about the amount of investment within a stipulated time period. In specific sectors, FDI is through the FIPB or the Government route where the FIPB has to approve each foreign investment. The Board is the apex inter-ministerial body of the Central Government that deals with proposals relating to FDI into India for projects or sectors that do not qualify for automatic approval by the Reserve Bank of India (RBI) or are outside the parameters of the existing FDI policy.

Table-1 Share of Top Ten Countries

SHARE OF TOP INVESTING COUNTRIES FDI EQUITY INFLOWS *(Financial years):*

Amount Rupees in Crores (US$ in Million)

Ranks	*Country*	*2014-15 (April – March)*	*2015-16 (April – March)*	*2016-17 (April,16 – September, 16)*	*Cumulative Inflows (April '00 - September '16)*	*%age to total Inflows (in terms of US $)*
1.	**MAURITIUS**	55,172 (9,030)	54,706 (8,355)	39,136 (5,850)	519,500 (101,760)	33 %
2.	**SINGAPORE**	41,350 (6,742)	89,510 (13,692)	31,282 (4,680)	287,949 (50,560)	16 %
3.	**U.K.**	8,769 (1,447)	5,938 (898)	6,436 (964)	122,028 (24,072)	8 %
4.	**JAPAN**	12,752 (2,084)	17,275 (2,614)	18,745 (2,795)	129,416 (23,760)	8%
5.	**U.S.A.**	11,150 (1,824)	27,695 (4,192)	9,618 (1,437)	104,193 (19,380)	6 %
6.	**NETHERLANDS**	20,960 (3,436)	17,275 (2,643)	10,795 (1,615)	105,328 (18,929)	6 %
7.	**GERMANY**	6,904 (1,125)	6,361 (986)	3,936 (588)	48,806 (9,217)	3 %
8.	**CYPRUS**	3,634 (598)	3,317 (508)	2,546 (381)	45,227 (8,933)	3 %
9	**FRANCE**	3,881 (635)	3,937 (598)	1,225 (183)	27,750 (5,294)	2 %

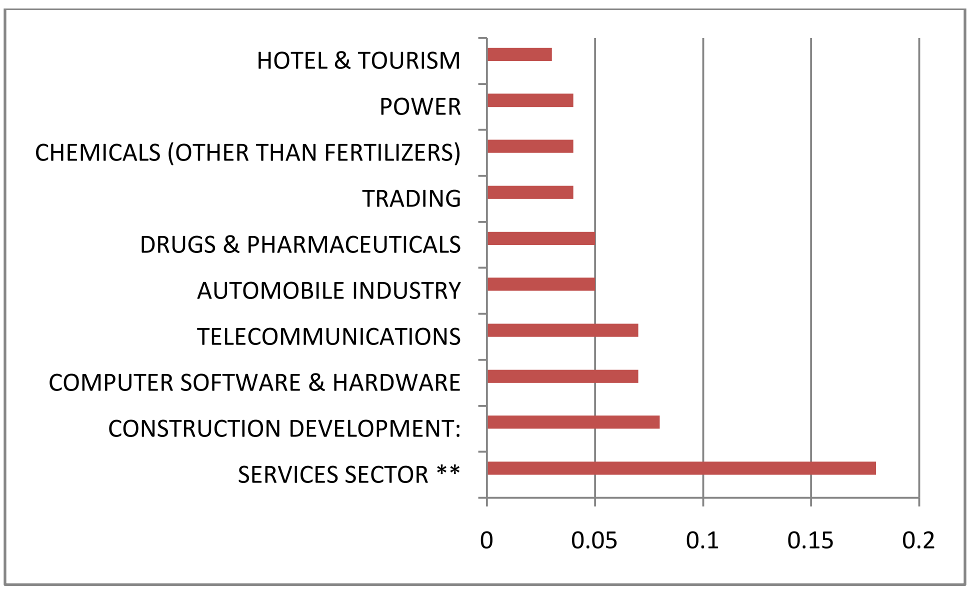
10.	**UAE**	2,251 (367)	6,528 (985)	2,375 (355)	24,024 (4,385)	1 %
TOTAL FDI INFLOWS FROM ALL COUNTRIES *		189,107 (30,931)	262,322 (40,001)	144,674 (21,624)	1,640,533 (310,258)	-

Source- FDI Factsheet, RBI,2016

*****Includes inflows under NRI Schemes of RBI. %age worked out in US$ terms & FDI inflows received through FIPB/SIA+ RBI's Automatic Route + acquisition of existing shares only

Table-1 shows the share of top ten investing countries, foreign direct investment, equity inflows into India, during the period of 2014-15 to 2016-17. It implies that these top ten countries accounted for all most 78% of the FDI inflows during the period.

Chart-1- SECTORS ATTRACTING HIGHEST FDI EQUITY INFLOWS:



Source- FDI Factsheet, RBI, 2016(% age to total Inflows (In terms of US$) on the basis of Cumulative Inflows April '00 - September '16

The Chart above shows the top ten sectors of economy attracting FDI on the basis of cumulative inflows till 2016. The service sector is the main performer followed by construction development, computer software and hardware and telecommunications.

Review of Literature

Foreign Direct investment Signifies to open economies Where the Investments cross the national boundaries and enter into the foreign countries. There has been a big debate about the benefits and advantages about the FDI with respect to the host country. E. Borensztein, Gregorio and Lee, in their paper tested the effect of FDI on economic growth in a cross country regression framework. In the test they found that FDI is an important vehicle for the growth of the host country. According to B. Smarzynska Javorcik, Many countries strive to attract FDI hoping that Knowledge brought by multinationals will spill over to domestic industries and increase their productivity. Hosein Elboiashi,in his paper examined the growth-effect of FDI in a selected sample from developing countries from 1970 to 2005. By applying GMM panel data technique, the paper found that the FDI has in general a positive impact on economic growth, but its magnitude depends on the host country conditions to achieve a economic growth and sustainable development. Laura Alfaro, in his work showed that the benefits of FDI vary greatly across sectors by examining the effect of foreign direct investment on growth in the primary, manufacturing, and services sectors. Robert Lensink and Oliver Morrissey, with their paper found that FDI has a positive effect on growth whereas volatility of FDI has a negative impact. There is a suggestion that it is not the volatility of FDI per se that retards growth but that such volatility captures the growth-retarding effects of unobserved variables. Wang et al. in their work analyzed logistics FDI and GDP and found that logistic FDI improved the quality of foreign investment and promoted the growth in China too.

Objective of study- The primary objective of the paper is to analyze the latest pattern and trend of the foreign capital specially the foreign direct investment in India. Further, to have insight of different aspects related to FDI and its impact on the Indian economy.

Methodology

To obtain the accurate insight about the inflows of foreign capital in the form of Direct investments, the Trend analysis is done with the help of Least Square Method. This method is widely used in order to analyse the trend of any variable over a period of time. This method is in the form of mathematical regression analysis which finds the line of best fit for a dataset of variables, explains the potential relationship between an independent variable and a dependent variable.This method is specified by an equation with certain parameters to observe, analysis and estimation of data.

Foreign direct investment (net) shows the net change in foreign investment in the reporting country- India. Foreign direct investment is defined as investment that is made to acquire a lasting management interest (usually of 10 percent of voting stock) in an enterprise operating in a country*.(according to World Bank definition).

Table-2 – FDI Inflow as a percentage of GDP

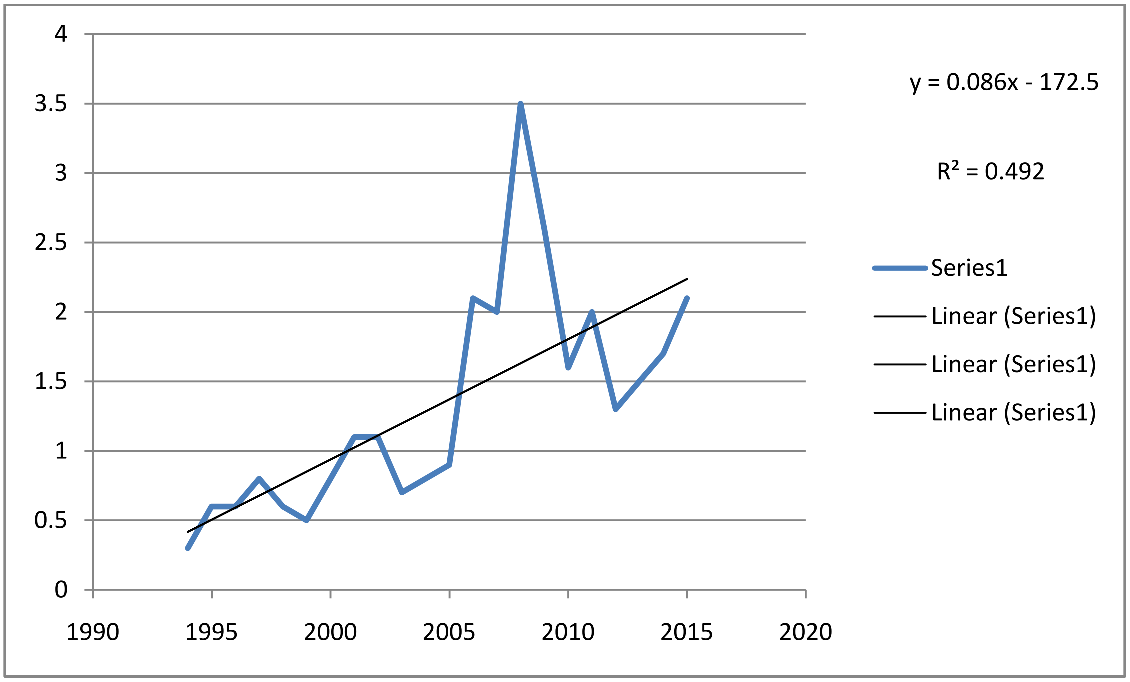
YEARS	FDI INFLOW % OF GDP
1994	0.3
1995	0.6
1996	0.6
1997	0.8
1998	0.6
1999	0.5
2000	0.8
2001	1.1
2002	1.1
2003	0.7
2004	0.8
2005	0.9
2006	2.1
2007	2
2008	3.5
2009	2.6
2010	1.6
2011	2
2012	1.3
2013	1.5
2014	1.7
2015	2.1

Source : World Bank Data

The table-2 above shows the FDI Inflows as a % of GDP into India. It reflects that over the years the percentage of FDI inflows is increasing continuously, though there is visible a dip in the year 1999-2000, which has recovered itself in immediately following years. In the year 2006 it reached to a very good level which has given a very good base for further development.

Chart-2

Trend line showing FDI inflows into India



The present chart shows the Trend line of FDI inflows into India. Series-1 shows the actual FDI inflows into India & series -2 shows the Trend Line (which is an upward sloping curve, showing the linear growth in the FDI Inflows over the years). Further prediction can be done with the help of the equation-

Y= 0.0867x-172.52

$R^2 = 0.4925$

Conclusion- India, being a Labor abundant country to utilize it to at the fullest, Capital in a right proportion is required. But unfortunately it is scarce, and domestically available capital is unable to support the growth process of the country. From Here the importance of foreign capital arises. Foreign investment flows are enriching and enhancing up the scare domestic investments in developing countries particularly in India. These investments were imperative in establishing the basic and essential infrastructure industries of priority sector and there is an upward trend in the flows of foreign investment particularly in study period. Foreign Capital especially in the form of direct investment plays a very constructive role in the growth process of the country and gives leverage to the Indian economy in achieving the major objectives like speedy economic development, employment generation, world class technological competency, removal of poverty and making its Balance of Payment favourable. With the analysis of this paper, it is found that the role and importance of FDI, in Indian context is utmost required to speed up its further growth plans. The trend of capital inflows are positive and have a tendency of increasing in the future, because of its strong strengths like its availability of resources, it's one of the highest economic growth in the world, its demographic profile, and future prospects of economy, make it a favorite destination for foreign investments.

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