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FOREIGN DIRECT INVESTMENT: A STUDY ON OVERVIEW OF INDIAN ECONOMY

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ABSTRACT

The major path to enhancing a nation like India's economic growth is foreign direct investment. FDI contributes to commerce between nations and is also a source of increased tax revenues and capital flows in the host country. Due to increased competitiveness in the host nation, productivity increases and more job possibilities have been created in different industries. Moreover, foreign investment may translate soft skills, sophisticated technologies for the domestic market and give accessibility to research and development resources through training and employment creation. This research attempted to examine the flow and patterns from foreign direct investment in India between 2000 and 2015 and discovered that although FDI has showed year after year a rising tendency, but the highest growth in FDI is found in the year 2006- 07 during the study period. India has attracted highest FDI equity inflow from Mauritius followed by Singapore, U.K, Japan, Netherlands, USA during the period. Among the sectors attracting highest FDI in India during the study period includes service sector, construction, housing development, computer software and hardware, automobile industry. The sectors attracting least FDI includes Trading and metallurgical industries. Due to various policy initiatives, technological enhancement, access to global market and practices, making Indian industry competitive in the global market, by increasing FDI cap on various sectors, In the country the Indian government was able to attract enough FDI.

Keywords: FDI, FDI Equity, Foreign Exchange Reserves, GDP

1. INTRODUCTION

Investment acts as a backbone of a nation. It is a strong determinant of growth and development in any nation. For a developing country like India, investment in any form is prerequisite for moving towards the path of progress showing ample opportunities for employment, eradicating the menace of poverty, developing the potential resource for investment, proper utilisation of manpower of a nation. Foreign investment plays an important part in the growth and development of any economy such as India as part of overall investment in a nation. Many countries seek to offer various advantages and investment possibilities to foreign countries so that foreign direct investment is attracted.

The saving and investment rate of a nation determines the need of FDI. FDI tends to eliminate the difference between the saving and investment of a nation. The FDI provides foreign capital to a nation which is imperative to combat trade deficit of a nation and helps in enlarging existing production capacity and generating new production processes.

1.1 Definition of Foreign Direct Investment

FDI is an investment by an investor in a firm from another country, and therefore a foreign investor controls the company bought in another country.

The Economic Cooperation and Development Organization (OECD) defines control as being owned by 10% or more. Foreign direct investment companies are commonly referred to as multinational companies (MNCs) or multinationals (MNEs).

The investment in any nation can be categorised into two types of investment:

1. Green field Investment:

A MNE can make a foreign direct investment by starting a new venture in the foreign country. It is considered to be more reliable form of investment as it is followed by starting a new enterprise and thereon new operational facilities are there in the host nation which creates many employment opportunities along with inflow of foreign exchange in the host nation. So developing nations attracts such types of green field investment from foreign nation by providing tax breaks, infrastructure subsidies, preferential tarrifs, etc

2. Brownfield Investment:

A MNE OR MNC or an individual investor can make an investment by the acquisition of a foreign firm already established in the foreign nation. Under brownfield investment, Investors acquire or lease existing facilities and carry out an activity of production. Such type of foreign investment may not enlarge employment opportunities but may help in retaining foreign exchange.

1.2 Advantages of FDI

- Access to Markets: FDI is a powerful means for foreign markets to enter. Globalization can be an aim of some companies in order to get competitive advantages over other companies. A foreign market enterprise is a way of gaining access.

- Access to Resources: FDI is also an efficient means to obtain natural resources, such precious metals and fossil fuels, accessible to a nation. For instance, oil firms are typically developing huge oil reserves through FDIs.
- Reduces Cost of Production: FDI is a means of decreasing manufacturing costs when the external market is less restricted and the labour market is cost efficient. For instance, it is generally recognised that the shoe and textile industries might dramatically decrease their production costs by transferring business to underdeveloped nations.

1.3 Routes of FDI: FDI Policy in India

- Automatic Route: Under automatic routes of FDI no Central Government permission is required. The RBI must simply be provided intimation and FIPB/CCEA clearance is not required. For the automated route, no limit was imposed on foreign investment.
- Government Route: The Foreign Investment Promotion Board shall evaluate proposals on this route (FIPB). More than 49 per cent of FDI in defence must be approved by the Cabinet Security Committee.

1.4 ProhibittedSectorsforFdi:

According to Fdi Circular, 2017source Rbi: Fdi Is Prohibited in:

a) Lots Business encompassing private/government lots, internet lots, etc.
b) Gambling and betting including casinos etc.
c) Chit funds
d) Nidhi company
e) Trading in Transferable Development Rights (TDRs)
f) Real Estate Business or Construction of Farm Houses
g) Cigars, cigarillos and cigarettes production of tobacco or tobacco replacement products production
h) Non-private investing activities/sectors e.g. I Atomic Energy and (II) Railways (other than permitted activities)
i) For Lottery business, Gambling and Betting operations, foreign technology partnership in any way including franchise licences, trademark, brand name, management contracts must also be forbidden.

2. REVIEW OF LITERATURE AND NEED OF THE STUDY

Malhotrabhavya (2014) They have investigated the influence of the FDI on a nation's growth. Various difficulties and changes are to be made, including a political challenge, a challenge for resources, a challenge in equality and federal challenges to win FDIs in India. Singh et al.(12) observed that the low savings rate causes low FDI inflows into a country and that both FDIs and FIIs need to be improved in order to boost overall foreign investment. It was found that the greatest level of FDI in the study has been achieved by 33.05 percent and a minimum of 0.07

percent of total cumulative influx of FDI, thanks to financing of insurance, real estate and business services. Renuka et al. (2016) examined the impact of FDI on the Indian retail industry. The study examined this effect. This study shows that the variables leading to FDI in India's retail sector include liberalising trade policy and reducing barriers to foreign investment in India. Retail sector has showed an enormous growth during the past five years during the study period. Rupnawar&Sadashiv (2017) the study showed that Mauritius has the highest FDI inflow more than 1/3rd of the total inflow during study period. The secondary sector has generated most of the employment than other sector. It proposed that Indian government focus on primary sector growth via shifting more FDI from services to primary and related industries.

The need to study the trends of FDI for a period of years lies on evaluating the key areas which attracts the FDI and analysing the reasons for low FDI in some areas and suggesting the means to enhance the FDI inflow. There is a need to study the barriers which tends to be a hindrance in the path of India’s economic growth and thereby removing the obstacle so as to attract more FDI into India.

3. OBJECTIVES

The present study has the following objectives:

1. To study the flow and trends of FDI in India.
2. To study the impact of FDI on the developing nation like India.
3. To evaluate the relationship between FDI inflows and foreign exchange reserves in India

4. RESEARCH METHODOLOGY

The study is focused on the aims of knowing how much foreign investment is necessary for economic development in India and to analyse the economic growth trend of FDI and how the economic conditions changed following economic reforms. Data were obtained utilising secondary sources for the purpose of the study, including Govt. reports and publication on foreign direct investment; economic journals; magazines and the internet., books, official websites of RBI, DIPP,IMF,UNCTAD etc. has been approached.

5. DATA ANALYSES TOOLS AND TECHNIQUES

- Time series analyses and trend line to study the pattern of FDI inflows
- Charts showing bar diagram of top 10 FDI host economies.
- Pie charts showing sector wise inflow of FDI in india.
- Correlation between variables using SPSS 20.

DATA ANALYSIS AND INTERPRETATION

Financial Year-wise FDI Inflows Data: As Per International Best Practices: Financial Years 2000- 01 To 2015-16

Table 1

S.NO	Year	TOTAL FDI	%age growth over previous year (in US$ terms
		US$ million	
1	2000-01	4,029	
2	2001-02	6130	52%
3	2002-03	5035	-18%
4	2003-04	4322	-14%
5	2004-05	6051	40%
6	2005-06	8961	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	-8%
12	2011-12	46,556	34%
13	2012-13	34,298	-26%
14	2013-14	36,046	5%
15	2014-15	44,291	23%
CUMULATIVE TOTAL		3,67,853	
From(april,2000to june,2015)			

Source: **consolidated FDI policy, DIPP**

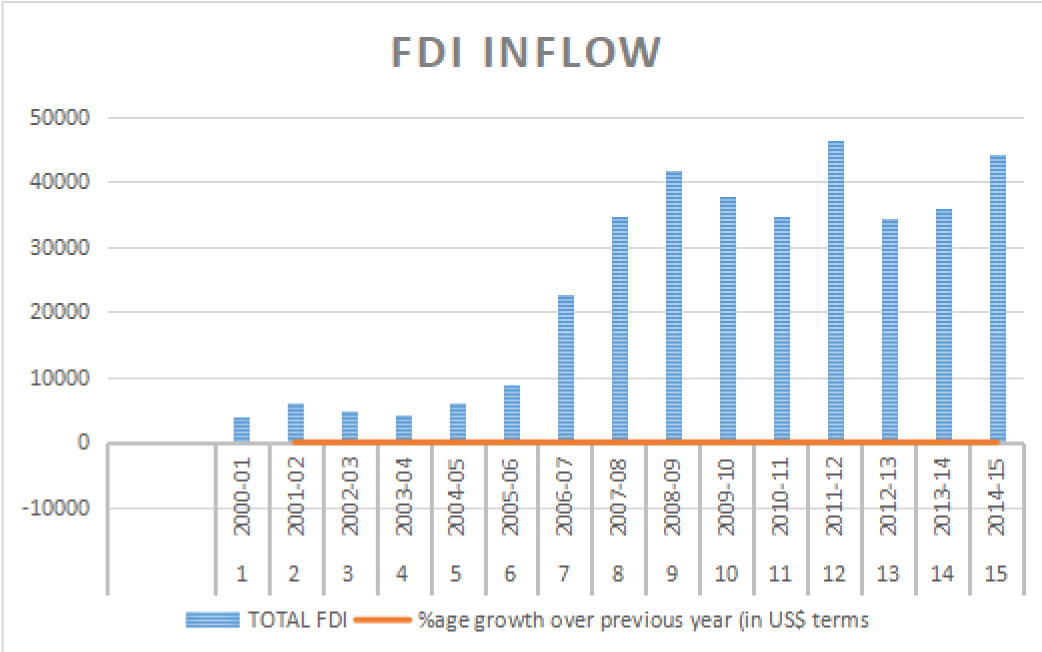


Table 1 The FDI inflows for India during 2000-01 to 2015-16 have been revealed. In FDI, it demonstrates a rising tendency. In 2014-2015, the highest FDI received is USD $442,291. Foreign direct investment inflows are growing year after year due to numerous factors, including heavy demand by Indian consumers, liberalised government policies, increased communications facilities, different efforts from government such as the MAKE IN INDIA programme and business ease in India.

Table 2:.share Of Top Investing Countries Fdi Equity Inflows (Financial Years):

Ranks	Country	CUMULATIVE IN FLOWS	% age to total inflows (in terms of US$)
		(April,2000 to june,2015)	
1	MAURITIUS	438,892(89,644)	35 %
2	SINGAPORE	190,477(35861)	14 %
3	U.K	110,409(22,329)	9 %
4	JAPAN	96,312(18,811)	7%
5	NETHERLANDS	81381(15,323)	6 %
6	U.S.A	70,839	(14378)6 %
7	GERMANY	42007(8198)	3 %
8	CYPRUS	39971(8140)	2%
9	FRANCE	23465(4651)	1%
10	SWITZERLAND	15812(3139)	-
Total FDI (258,141)	inflows from all countrie	s	12,93,836

• Cumulative country-wise FDI equity inflows (from April, 2000 to June, 2015)

Source: DIPP, Federal Ministry of Commerce & Industry, Government of India.

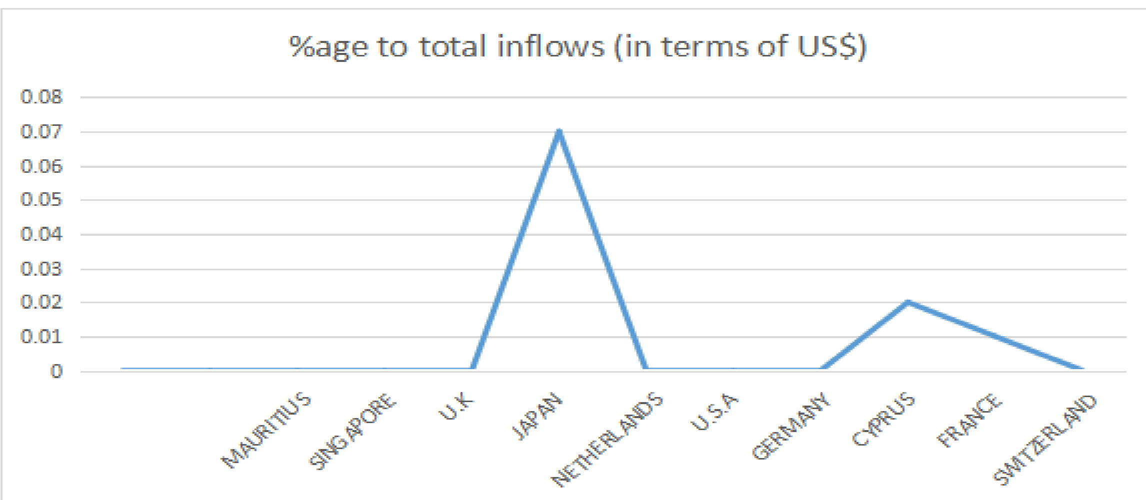


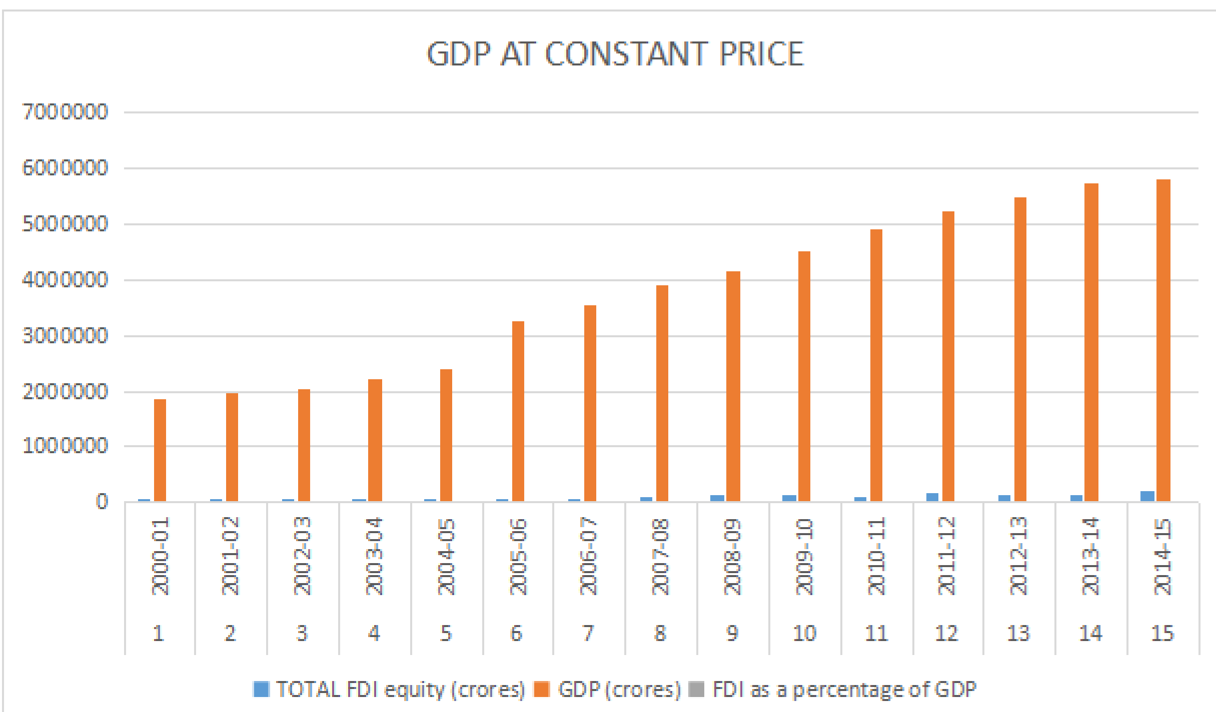
Table 2 The list of top 10 investment nations in India is clearly stated. In the influx of investment FDI, Mauritius plays a key role. This is the reason for Mauritius being shielded from taxations in India, because India and Mauritius have signed several agreements including Double taxes avoidance agreements (DDTA). 14% and 9% respectively in Singapore and the UK.

Table 3: Evaluation of FDI equity and GDP in India during (2000-01 to 2014-2015)

The table below illustrates the FDI equity input and its GDP impact.

S.NO	YEAR	TOTAL FDI equity (crores)	GDP (crores)	FDI as a percentage of GDP
1	2000-01	10733	1864300	0.5757
2	2001-02	18654	1972600	0.9456
3	2002-03	12871	2048300	0.6283
4	2003-04	10064	2222700	0.4527
5	2004-05	14653	2388800	0.6134
6	2005-06	24584	3253000	0.7557
7	2006-07	56390	3564300	1.582
8	2007-08	98642	3896600	2.5314
9	2008-09	142829	4158600	3.4345
10	2009-10	123120	4516000	2.7263
11	2010-11	97320	4918500	1.9786
12	2011-12	165146	5247500	3.1471
13	2012-13	121907	5482100	2.2237
14	2013-14	147518	5741800	2.5691
15	2014-15	189107	5807300	3.2563
CUMULATIV			12,33,538	57082400

***Source :* of GDP at constant prices : Central Statistics Office (CSO)**



The table 3 Presented FDI equity and GDP influx in India between 2000-01 and 2014-15. The data shows Indian FDI influx has increased significantly. It was demonstrated that FDI equity flow grew from Rs. 10733 crores in 2000-2001 to Rs. 189107 Crore in 2014-2015, which rose by over 178375 crorers. throughout this study. During the study period. The Indian Government was able to attract sufficient amounts of FDIs across the country thanks to different policy initiatives, technological development, access to the global market and practises, making the Indian sector competitive on the world market, opening up export markets and increasing the FDI cap on various industries. In the year 2014-2015, the largest amount of FDI equities in Rs. 189107 Crores was received. The figure also indicates that FDI equity, a proportion of GDP, increased year after year to 2014-2015 by less than one percent till 2005-06.

Evaluation of FDI equity and forex reserves in India during (2000-01 to 2014-2015)

Table 4: The following Table Shows the Picture of FDI Equity Inflow and its Impact Foreign Exchange Reserves.

Sr.no.	Year(april 2001-june2015)	FDI equity(crores)	Foreign exchange reserves (crores)
2	2001-02	18654	286490
3	2002-03	12871	385499
4	2003-04	10064	547939
5	2004-05	14653	605060
6	2005-06	24584	750700
7	2006-07	56390	869940
8	2007-08	98642	1333960
9	2008-09	142829	1282324
10	2009-10	123120	1288890
11	2010-11	97320	1388955
12	2011-12	165146	1632950
13	2012-13	121907	1691980
14	2013-14	147518	1895490
15	2014-15	189107	2256340
	Total	1222805	16216517

Source: **Foreign Exchange Reserves is Taken from RBI Statistics.**

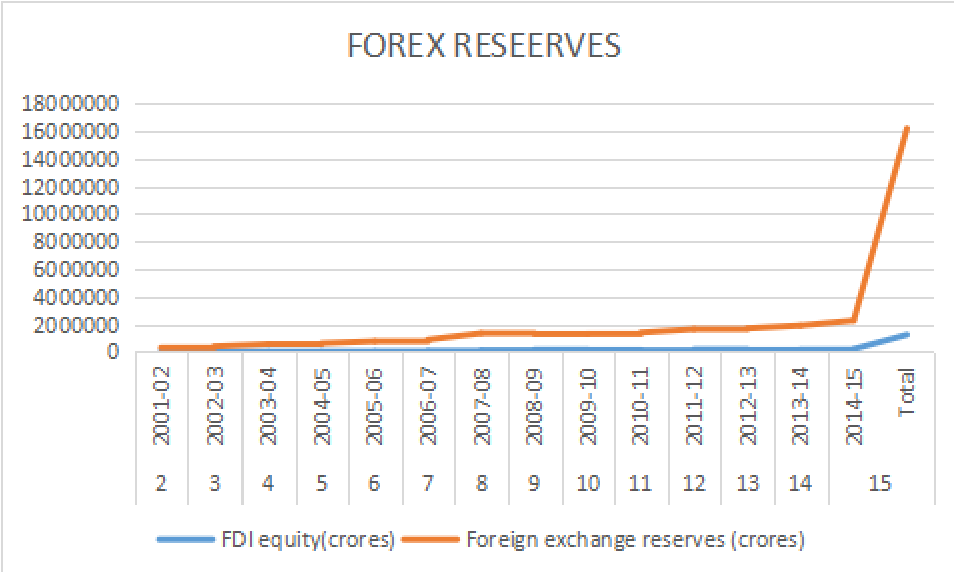


Table5: Correlation BetweenFdi and Forex Reserves

Correlations		**Service quality**	**Customer satisfaction**
FDI	Pearson Correlation sig.(2-tailed)	1	.946**
FOREX	Pearson Correlation sig.(2-tailed)	.946**	1
**Correlation is significant at the level (2-tailed)			

The value of correlation between Foreign direct investment and foreign exchange reserves is+.946. Which implies that FDI has a great impact on the total value of foreign reserves of a nation.

Table 6: Comparison Of Top 10 Host Economies On The Basis Of Fdi Inflow 2013 And 2014

Rankings	Fdi Inflows Top 10 Host Economies		
	Country	Fdi Billions Of Dollars	
		2013	2014
1.	China	124	129
2	Hong Kong, china	74	103
3	United states	231	92
4	United kingdom	48	72
5	Singapore	65	68
6	brazil	64	62
7	Canad a	71	54
8	India	28	34
9	Netherlands	32	30
10	Chile	17	23

Source: world investment report UNCTAD

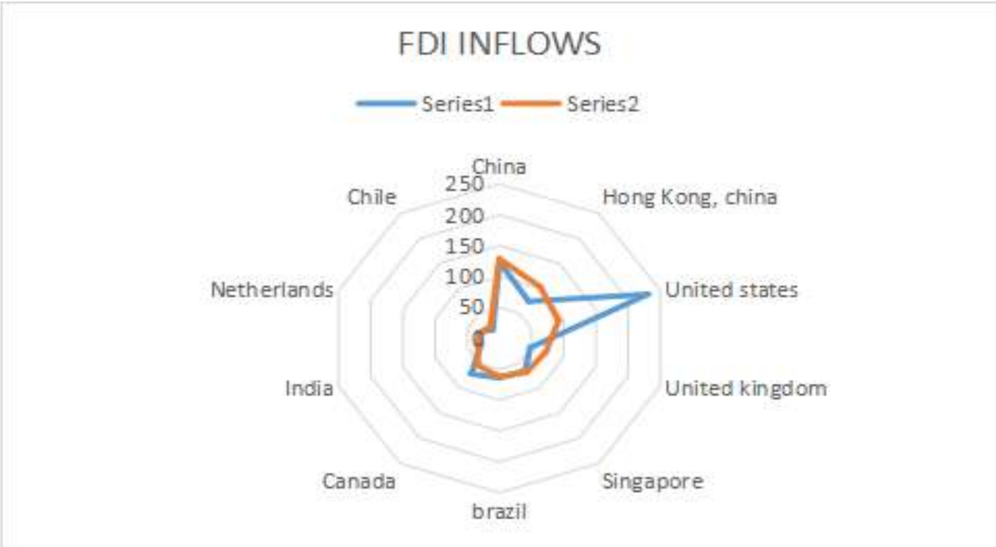
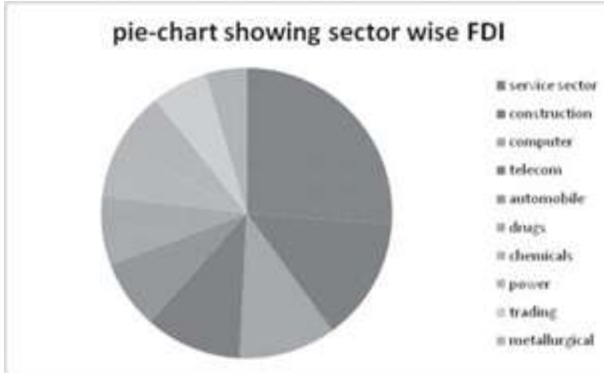


Diagram shows that china is on the top of the list for attracting huge FDI inflows followed by US and UK. This is due to developed infrastructural facilities, strong market position of these economies, political stability etc. Netherland and chile both are on the bottom of the list to attract major FDI inflows.

SECTORS ATTRACTING HIGHEST FDI EQUITY INFLOWS IN INDIA

Table 7: Amount in Rs. crores (US$ in million)

Ranks Sector		Cumulative Inflows (April 2000 - June 2015)	% Age To Tot Inflows (In Terms (Us$)
1	Services Sector **	209,578 (43,350)	17 %
2	Construction Development: Townships, Housing, Built-up Infrastructure	113,355 (24,098)	9 %
3	Computer Software & Hardware	89,481(17,575)	7 %
4	Telecommunications (Radio Paging, Cellular Mobile, Basic Telephone Services)	86,609 (17,453)	7 %
5	Automobile Industry	70,906 (13,477)	5 %
6	Drugs & Pharmaceuticals	66,652 (13,336)	5%
7	Chemicals (Other Than Fertilizers)	50,909 (10,588)	4 %
8	Power	48,357 (9,828)	4 %
9	Trading	49,479 (8,958)	4 %
10	Metallurgical Industries	41,992 (8,680)	3 %



Source: DIPP, Federal Trade and Industry Ministry, Government of India The table shows FDI inflows from April 2000 to June 2015 in various sectors. Most foreign governments have invested in the service, construction, communications and computer software and hardware industries since these sectors may provide a large profit.

GOVT POLICY MEASURES

- It is clear that the Indian business receiving FDI does not, at any point, require prior consent from the Reserve Bank of India, pursuant to the FEMA 1999 Regulations. The capital inflow and the issuing of shares in regulated formats is solely reported to the Reserves Bank.
- The cabinet on Wednesday increased FIPB's authority to take judgments about foreign investments worth up to Rs 3.000, up from Rs 1.200 crore permitted under the FDI policies, 2014, to encourage FDI in Indian countries and to facilitate commercial activities in Indian countries. FIPB recommendations would be submitted for consideration by the CCEA on applications having a total foreign equity infusion of greater than Rs 3000 crore.
- The Indian government has reduced the FDI policy standards for non-resident Indians Regulations (NRIs). This would allow individuals of Indian origin (PIO), NRI to be deemed domestic investments if repatriating investments were made by the overseas Indian Citizen (OCI) and to be released from the FDI limitations. Under the terms.
- The 26% FDI ceiling in the defence industry increased to 49% through the method of government authorisation.
- The 26% FDI ceiling in the defence industry increased to 49% through the method of government authorisation.
- Now government has allowed 100% FDI in medical devices.

6. CONCLUSION AND RECOMMENDATION

Studies have led to the conclusion that additional local and international policy initiatives are needed to encourage foreign investment in India. According to a World Investment Report published by UNCTAD, india ranks at 8th position in the list of top world economies attracting highest FDI in 2016-17Major part of foreign investment is attributed to the developed nations as compared with developing nations.

In this study, the majority of FDI is earned via funding, the insurance and the allied industry, real estate and services which account for 35% of total cumulative FDI inflow throughout the course of the study period, as shown by the current survey on foreign investment in India. But what is seeking serious attention is that these concern sectors are featuring high risk and volatile profits. Under this situation.the FDI objectives of equitable and sustainable growth of all sectors is hampered.In this study, we find that the FDI in core sectors of India is very lowSo the main focus of attention is to give due consideration to the growth of core industries, such as trading power, metallurgical industries.

In order to support infrastructure development in sectors such as road, airway and ports, India would have to spend around US$ 1 trillion in its 12th Five-Year Plan (2012–2017).

The government should provide more incentives, subsidies, infrastructural facilities to the outsiders so as to attract more FDI in such sectors and to make india a place for ease of doing business.

So more effort should be made on the part of government to provide better environment to the foreign investors for attracting foreign direct and indirect investment so now government should welcome FDI wholeheartedly in all sectors by removing various barriers in different sectors, only then a nation like India would come out of the menace of unemployment, poverty,etc and will foster towards becoming a “developed nation”.

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