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Foreign Direct Investment in India: An Overview

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ABSTRACT: In the global competitive era, every country wants to be self-reliant and self-sufficient. Most Under Developing Countries are immensely dependent on the advanced countries which have abundant capital, better infrastructure, and advanced technologies. India is one of those countries which is excessively dependent on an advanced nation for its capital requirement and financial stability as India is a labour-intensive country along with skilled and cheap labour force. Till 1991, most of the capital-intensive Indian industries were controlled by the Government of India and till then GOI used the conservative technique for the economic growth and development. In July 1991, India adopted a New Industrial policy (Liberalization, Privatization and Globalization) that's why many Indian industrial sectors were open for the private sector investment and Foreign Direct Investment (FDI) since then FDI was a major form of investment. Due to cheap and skilled labour, abundance of natural resources, mobility of labour, stability in the economy and economic factor in the form of taxes, subsidies which government provide to the foreign investors at the time of investments, which makes India a better destination of investment for foreign investors such as Foreign Portfolio Investors(FPIS), Foreign Equity Investors etc. In India, service sector attracted the highest FDI in this decade and India has received the maximum inflow of FDI from Mauritius in FY19. This study concentrated on the inflow of FDI in the top 10 sectors of the country in which FDI is the most emerging investment. This study focused on the city-wise FDI inflow and top 10 countries through which FDI inflow into India. In this study, Analysis and interpretation have been conducted by the simple percentage method.

KEYWORDS: Economic Growth, Foreign Equity, Foreign Direct Investment, Sectors, Self-Reliance.

INTRODUCTION: Foreign direct investment plays an important role to accelerate economic growth and enhances the efficiency of the country. China adopted the liberalization policy in the 1980s, but India adopted it in the 1990s. Before pre liberalization, India had been following the restrictive trade policies but since independence, an average growth rate of Indian economy was 3% only which was very less as compared to the other countries mainly with China. And also in 1991 India was going through the several financial crisis due to which the then Finance Minister Dr Manmohan Singh under the supervision of Prime Minister P.V Narsimha Rao took a bold step to liberalize the Indian market for the private plyers and global investors in such a way that foreign direct investment was allowed in mainly two forms is automatic route and through approval route in India. Along with-it, Government of India constituted the FIPB (Foreign Investment Promotion Board) under the new foreign investment policy. And the concept of foreign investment come from the foreign exchange

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management act 1991through which government liberalize the restrictive trade policies and reduce the trade barrier so that FDI could flow into the economy smoothly.

Foreign Direct Investment is the investment through which the different countries invest in the host country and it plays an important role in the long term development in a way to enhance the productivity, increase the efficiency, generate the employment opportunities, strengthen the infrastructure, to make the world more competitive and transfer the technology from one nation to another nation by foreign investment.

In the FDI Confidence Index 2018, India ranked at 11th spot and in the year 2017 India ranked at 8th spot. In this Index, U.S.A was on the 1 position followed by Canada (2th), Germany (3th), United Kingdom(4th), China (5th) and Japan (6th) respectively.

India retained its position as the second highest-ranked emerging market on the index. Various recent reforms have been taken by the Union Government to make the country more business-friendly, such as Union Government has abolished the Foreign Investment Promotion Board (FIPB) in 2017 and liberalize the FDI for retail, aviation and biomedical industries. India remains the top investment destination due to its large market size, economic growth, an abundance of skilled and cheap labour and availability of natural resources. Make in India is the latest initiatives taken by the government of India to attract foreign investment in our country and to boost the domestic industries. Through this initiative, India can make innovative products, enhance the competitiveness and utilize the skilled human labour by generating employment. India can boost its manufacturing sector and empower the secondary and tertiary sector. Ordinance of this policy regime is made to reduce the red tape, undesirable actions and to frame the economy more transparent. There is a gap between saving and capital investment. FDI eliminate this gap by the inflow of fund into the economy.

'Invest India' is a joint company of public and private sector which has been constituted to promote the foreign direct investment in the country. It will provide the information of investment to the foreign investors and it will work on 'No Profit No Loss'. For this project, Government and FICCI have allocated the 1000 crore of capital in the ratio of 49:51 respectively.

In 2016, the Government of India has allowed the 100% FDI under government approval route for trading and manufacturing of the food products (Agro-Industry) in India. In the defence sector, 49% FDI has allowed under the government approval route. Teleports, Cable Network, Mobile TV and Broadband services have been opened for the 100% FDI in India. 100% FDI has been allowed in the greenfield pharma. In the Civil Aviation Sector, 100% FDI has been allowed under the automatic route in the greenfield projects and 74% FDI in the Brownfield projects under the government route. In 2018, the Union Government has allowed Foreign Airlines to invest in Air India up to 49% with government approval. In the Union Budget 2019,100%, FDI has been permitted in insurance intermediaries.

OBJECTIVES

There are the objectives which are as follows:

- To analyse the trend of FDI inflow inIndia sinceFY2000 to FY2018.
- To understand the pattern of FDI inflow into the different industrial sector.
- To study the trend of foreign direct investment inflowfrom the various countries.
- To study the foreign direct investment inflow in the various cities of the Indian Economy.

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FDI INFLOW IN INDIA

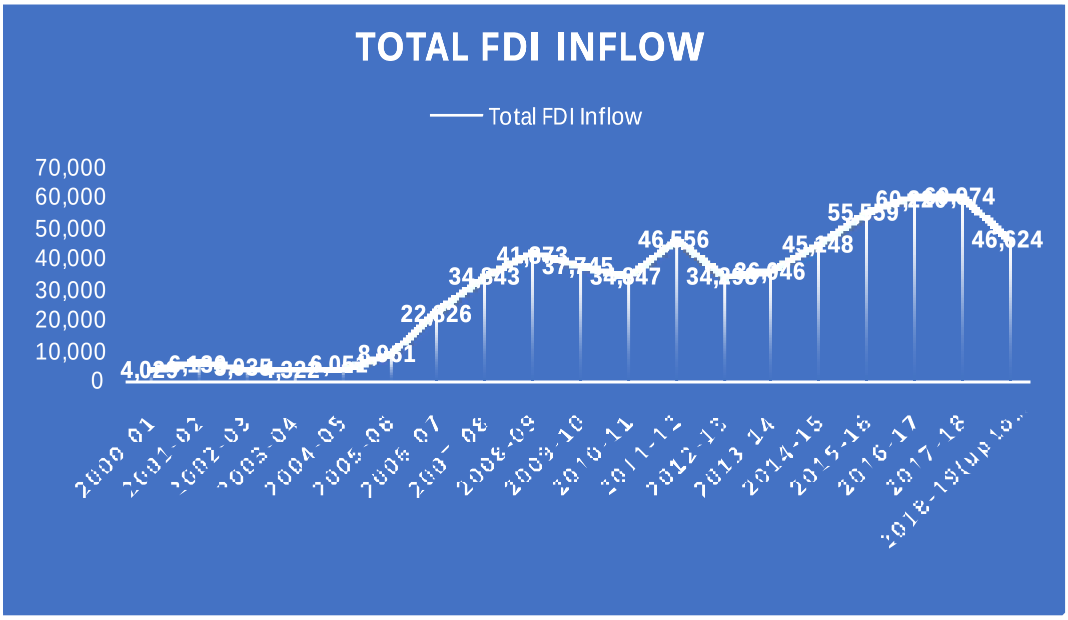
This study analyses the pattern of FDI inflow into India. The data has been collected from the secondary sources as follows:

Table 1.1 FINANCIAL YEAR-WISE FDI INFLOWS DATA:

(Amount US$ Million)

Financial year	Total FDI Inflows	% age growth over previous year (in US$ terms)
2000-01	4,029	-
2001-02	6,130	(+) 52 %
2002-03	5,035	(-) 18 %
2003-04	4,322	(-) 14 %
2004-05	6,051	(+) 40 %
2005-06	8,961	(+) 48 %
2006-07	22,826	(+) 155 %
2007-08	34,843+	(+) 53 %
2008-09	41,873	(+) 20 %
2009-10	37,745	(-) 10 %
2010-11	34,847	(-) 08 %
2011-12	46,556	(+) 34 %
2012-13	34,298	(-) 26%
2013-14	36,046	(+) 5%
2014-15	45,148	(+) 25%
2015-16	55,559	(+) 23%
2016-17	60,220	(+) 8%
2017-18	60,974	(+) 1%
2018-19(up to Dec -18)	46,624	-

Source: RBI Quarterly Fact Sheet 2018



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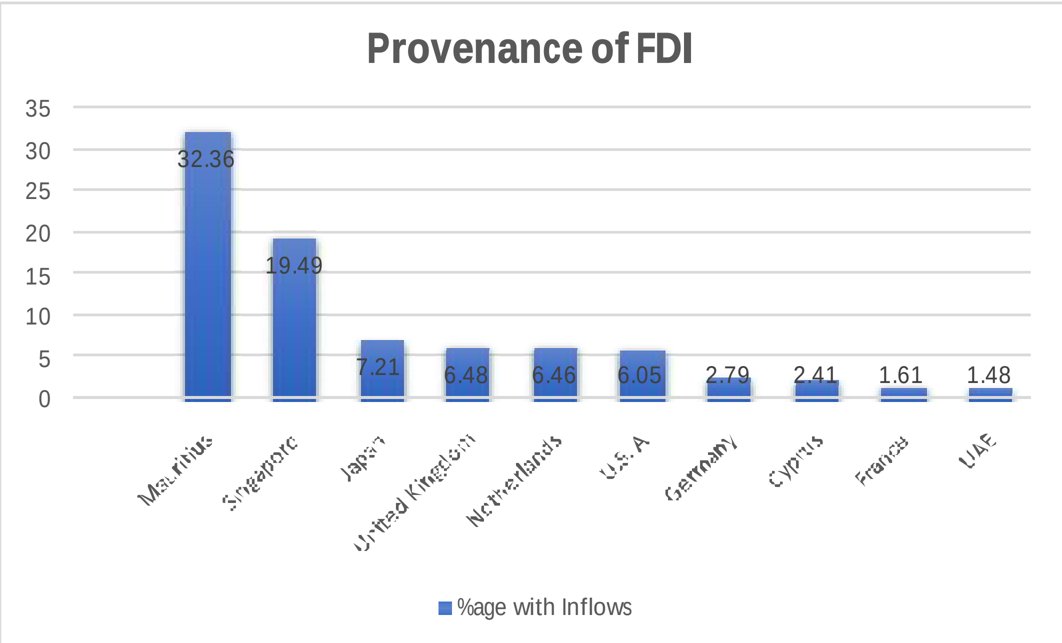
Source: Interpreted from Table 1.1

The above table shows the FDI inflow in India during the period 2000-2018. Large scale fluctuation has been exhibited in different financial years. In FY 2002, FDI inflow had increased by more than 50% to $6130 Million from $4029 Million in FY2001 due to high consumer demand and new liberalization policy adopted by the govt. But afterwards, it declined to US$ 5,035 M and the US $ 4322 M in FY 2003 and FY 2004. In the FY 2005 to FY 2009, FDI inflow was increased drastically from $ 6,051M to $ 41,873M and also there was a positive inflow even at the time of recession in 2008. In the FY 2007, FDI was at its peak with 155% of growth rate But in FY 2010 to 2011, FDI growth rate was declined marginally from 10% to 8% and then there has been an increasing trend of FDI inflow during the FY 2014 to 2019. India had attracted the $36,046 to $46,624 Million FDI inflow into the economy due to the full utilization of skilled human labour and natural resources, opening for the foreign competition, technological upgradation, providing the forward and backward linkage and to promote the ease of doing business. The Union Government has also been taking the numerous steps to attract the larger FDI into the economy.

PROVENANCE OF FDI

India is receiving the FDI from the various countries through various channels. Mauritius has the double taxation avoidance agreement with India and Mauritius is known as a country of tax haven (very minimal or zero taxation in its nation) as Mauritius investors pay the very minimal tax in their country and also get the tax exemption from India that is why India gets the highest FDI inflow from Mauritius.

Figure 1.2 Provenance of FDI



Source: RBI Quarterly Fact Sheet 2018

figure 1 shows the FDI inflow from several countries. Mauritius was the top emerging country which had the highest share of FDI inflow into India with $ 132,408.32 million followed by Singapore (2nd) with $79,746.67 million, Japan (3rd) with $ 29,519.14 million, United Kingdom(4th) with $ 26,494

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million, Netherlands (5th) with 26,432.77million, U.S.A(6th) with $24,759.41million, Germany (7th)with $ 11,419.91, Cyprus (8th) with $9,861.07million, France (9th)with $6,592.53million, and UAE (10th) with $ 6,053.83million.

SECTORAL FDI INFLOW IN INDIA

The FDI inflow in several important sectors of Indiaduring 2000 to 2018 are as follows

Table 1.2 STATEMENT ON TOP 10 SECTOR FDI INFLOWS from APRIL 2000 TO DECEMBER 2018

S.NO	Sector	Amount of FDI Inflows		% age to total Inflows (In terms of US$)
		(In Rs crore)	(In US$ million)	
1	SERVICES SECTOR	398,161.37	71,579.14	17.49
2	COMPUTER SOFTWARE & HARDWARE	211,768.10	35,819.13	8.75
3	TELECOMMUNICATIONS	185,638.87	32,450.33	7.93
4	CONSTRUCTION DEVELOPMENT	118,653.85	24,910.06	6.09
5	TRADING	133,580.37	21,594.26	5.28
6	AUTOMOBILE INDUSTRY	120,183.55	20,846.12	5.10
7	CHEMICALS (OTHER THAN FERTILIZERS)	89,904.97	16,417.76	4.01
8	DRUGS & PHARMACEUTICALS	83,824.27	15,934.42	3.89
9	CONSTRUCTION (INFRASTRUCTURE) ACTIVITIES	90,808.16	14,372.70	3.51
10	POWER	77,206.73	14,218.04	3.48

Source: RBI Quarterly Fact Sheet 2018

Figure 1.2 Sectoral Formation

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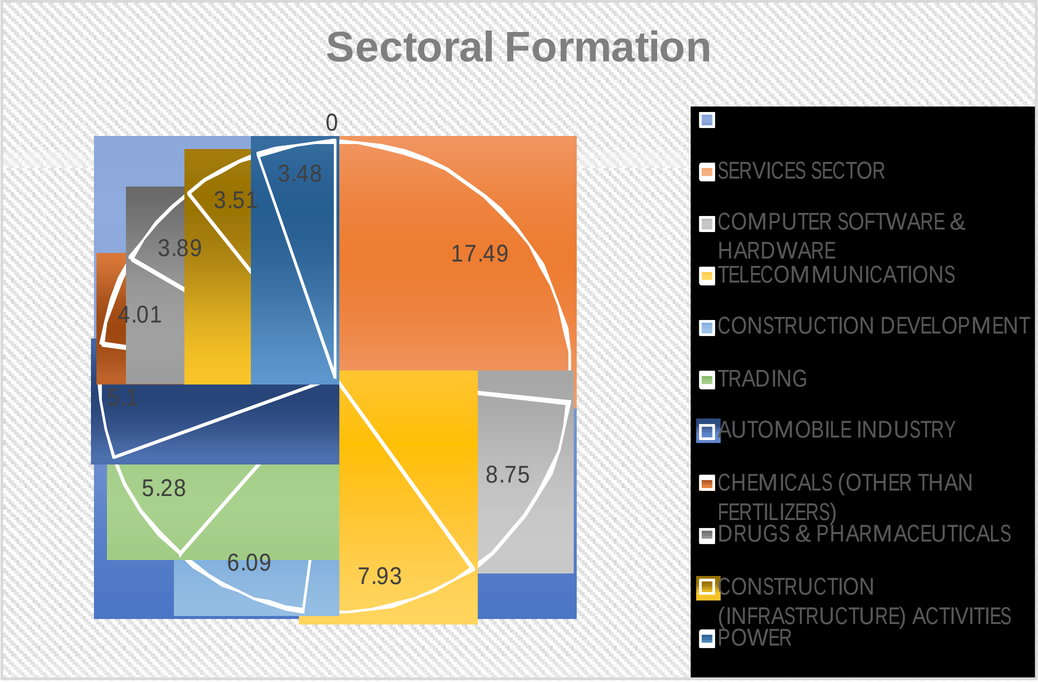

Sources: Interpreted from Table 1.2

Table 2 depicts the sectoral share of FDI inflow during FY 2000-FY2018. The results revealed that the maximum share of FDI inflow in the service sector with 17.49% of total FDI. This was due to huge FDI inflow in financial sector, as foreign investors invested most in the Finance, Banking, Insurance, Non Fin/Business, Outsourcing, R&D, Courier services such that financial sector generate easy, secure and fast profit from these businesses and also financial sector provides the greater advantage to foreign investors to cash out easily. Computer Software & Hardware sector attracted the 2nd largest FDI after service sector with 8.75% of total FDI followed by Telecommunications sector with 7.93% of total FDI, Construction & Development with 6.09% of total FDI, Trading with 5.28% of total FDI, Automobile Industry with 5.10% of total FDI. Chemical accounts as 4.01% of total FDI followed by Drugs &Pharmaceuticals with 3.89% of total FDI, Construction with 3.51% of total FDI and lastly power with 3.48% of total FDI in India. The power sector has the lowest share of FDI inflow in India. Government of India has allowed the 100% FDI under the automatic route in the construction sector for towns and cities.

FDI INFLOW IN MAJOR CITIES

There are different states of India in which FDI plays a major role in accelerating the growth of the state and cities of particular state plays a major role in attracting FDI. This study tries to achieve the objective of this paper to analyse the inflow of FDI into different cities.

Figure 1.4 FDI in India-State Wise

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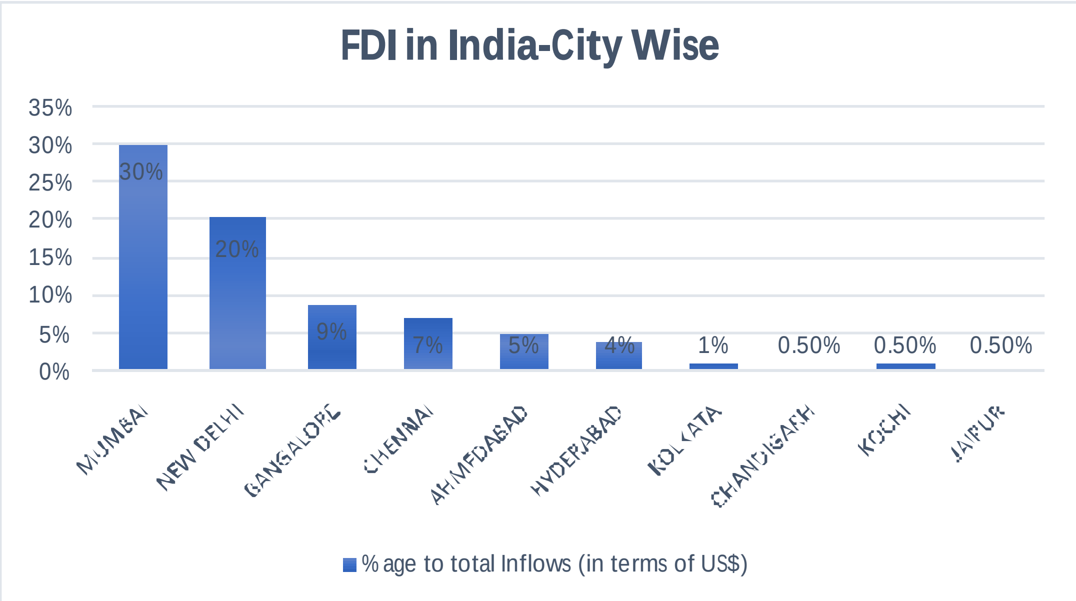

Source: RBI Quarterly Fact Sheet 2018

Figure 4 portrays the total FDI inflow in the various cities of India during the period 2000 to 2018. The results show that Mumbai had the maximum FDI cumulative inflow with Rs690,323 crore (30% of total FDI) followed by New Delhi with Rs471,067Crore which was 20% of total FDI, Bengaluru with Rs211,560crore (9% of total FDI), Chennai with Rs169,898 crore (7%of total FDI), Ahmedabad with Rs 116,284crore which was 5% of total FDI, Hyderabad with Rs 102,031crore which have 4% of total FDI, Kolkata with Rs 30,716crore which was 1% of total FDI , Chandigarh with Rs 11,495crore, Kochi with Rs 11,866 crore, Jaipur with Rs 10,875crore of cumulative FDI inflow.

POLICY ADVOCACY

The Department for Promotion of Industry and Internal Trade and Invest India has developed the India Investment Grid to provide a pan India database of projects for advancing and lubricating the foreign investments from Indian promoters.

The Department of Industrial Policy & Promotion (DIPP) has published the New FDI Policy for E-Commerce that has come into the force on 1st February 2019. The provision of the New FDI Policy is to engage in Business to Business (B2B) e-commerce not in the business to consumer(B2C) e-commerce. The main aim of this policy is to uplift the Indian retail sellers. Now Government is prohibiting the exclusive selling on e-commerce to increase consumer sovereignty such that consumer should have more choices to purchase the same products from different platforms as same product will be available on more than one portal.

CONCLUSION

This research paper was mainly focused on the investment pattern of foreign direct investment in India. The analysis shows that the service sector was leading a major role in investing in India followed by computer software & hardware and telecommunication. India gets the highest FDI from Mauritius. India has vast fluctuations in the FDI inflows. Most of the sectors were opened under the automatic route to make India as the world largest open economy which would be beneficial for the economy. FDI is a major source of non-debt, long term fund for economic development and plays a

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crucial role in the economic growth of a country. FDI flows to India grew by 6% to $42 billion in 2018- According to the World Investment Report 2019, released by United Nation Conference on Trade & Development. FDI always helps to generate employment opportunities for skilled workers with high perks and strengthen the small-scale industries in India.

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