

Foriegn Direct Investment In India: A Theoretical Aspect

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ABSTRACT:

Indian economy is one of the top emerging markets of the world. Foreign direct investment (FDI) is always contributing in the positive growth toward the economy of one country due to the investment by another country or country's personnel's. The effectiveness and efficiency of Global economy depends upon the investor's perception, if investment seen with the purpose of long terms investment in the social-economical development then it is said that the investment contributes positively towards global economy, if it is short term for the purpose of making profit then it may be less significant than that long term and disinvestment leads negative effect. The FDI may also be affected due to the governmental trade barriers and policies for the foreign investments and leads to less or more effective toward contribution in economy as well as GDP and GNP of the country.

Keywords: Foreign direct Investment (FDI), Indian economy, Economic growth, Economic efficiency and effectiveness.

INTRODUCTION

Apart from being a critical driver of economic growth, foreign direct investment (FDI) is a major source of non-debt financial resource for the economic development of India. Foreign companies invest in India to take advantage of relatively lower wages, special investment privileges such as tax exemptions, etc. For a country where foreign investments are being made, it also means achieving technical know-how and generating employment.

The Indian government's favourable policy regime and robust business environment have ensured that foreign capital keeps flowing into the country. The government has taken many initiatives in recent years such as relaxing FDI norms across sectors such as defence, PSU oil refineries, telecom, power exchanges, and stock exchanges, among others.

RELATED LITERATURE

Various governments have been responding to globalisation in a positive and comprehensive way. Significant divergent changes are made in the investment policies to make them adaptable, acceptable and sustainable. This has attracted a number of researchers across the globe to have a deeper look at the investment policies especially FDI in both developed and developing countries. Various researches like Carkovic & Levine (2002), Alfaro (2003), Johnson (2006), Lyroudi et al. (2004), Sapienza (2009), Melynly et al. (2014) have been able to establish a positive relationship between FDI and Economic growth and development for the developing economies. World Investment report (2018) states that the developing

economies have transformed their policy structures to accommodate the foreign players in manufacturing sector, as this sector has high potential to create jobs in the formal sector thereby raising and improving the standard of living conditions along with a improvement in productivity levels. At the outset Herzer (2010) paper suggests positive effects of outward FDI on 50 countries. The study uses cross section growth regression approach and system cointegration method to show a positive relationship between FDI and economic growth. The long run causality shows that due to increases in GDP and the associated rise in productivity levels of firms helps them to make investments abroad thus having positive and significant ripple effects. Mora & Singh (2013) examined empirically the role of FDI in manufacturing and its contribution to trade productivity and fragmentation in ten Asian countries. Their results indicate a positive correlation between exports and imports with FDI. A greater trade fragmentation was observed in imported intermediate goods. However, both exports and intermediate imports have a positive correlation with per capita GDP. Foster (2011) examines the FDI scenario in emerging nations like India, U.K, Brazil along with China. The author observed that China is one of the top nations in the world to receive FDI. Surprisingly the FDI is unevenly distributed in the country. The richer regions like those in east China have been able to attract high FDI as compared to western region. The author also highlights various regulatory problems in the country leading to execution of FDI projects. Fereidouni et al. (2011) point out that MENA (middle east and North Africa) region has not been able to benefit much from FDI except for sectors like energy and construction. They made observations on 19 MENA countries for eight years' time period from 2000 to 2008 on particular level of voice and accountability (VA). Their results indicate no relation between FDI and VA. Wang (2009) examines the impacts of different sector-level FDI inflows on host country's economic growth. The author uses data from 12 Asian economies from 1987-1997. The empirical results show a strong positive relationship between FDI in manufacturing sector and economic growth. FDI inflows in non-manufacturing sectors do not play an important role in augmenting economic growth. Ramaswamy et al. (2017) analyse the regional productivity across 28 Indian states from 1993 – 2013 w.r.t to FDI spill over. Using a panel data, they observed that factors like research and development, technology import, human capital, and various specifications of FDI have a substantial effect on the regional productivity in India except technology gap. Khachoo & Sharma (2017) observe closely the behavior of Indian and foreign Manufacturing firms for the research and development (R&D) when the FDI flows in. The authors stress that FDI inflows raise the competition level in the country thereby raising the R&D requirements by both domestic and foreign firms. The study uses Heckman's two-step estimation strategy to analyze this impact from 2000 to 2012. Their results indicate a remarkable increase in the investment budgets of both domestic and foreign firms on R&D and further suggests opening of the domestic economy for higher FDI. Programs like Make in India are working in the direction of bringing transformation into the economy thus making it a global manufacturing hub.

ANAYLSIS FDI in India

FDI is an important monetary source for India's economic development. Economic liberalisation started in India in the wake of the 1991 crisis and since then, FDI has steadily

increased in the country. India, today is a part of top 100-club on Ease of Doing Business (EoDB) and globally ranks number 1 in the greenfield FDI ranking.

Market size

According to the Department for Promotion of Industry and Internal Trade (DPIIT), FDI equity inflows in India stood at US\$ 446.11 billion during March 2000 to September 2019, indicating that government's effort to improve ease of doing business and relaxation in FDI norms is yielding results.

FDI equity inflows in India stood at US\$ 26.09 billion during April-September 2019. Data for Q2 2019-20 indicates that the service sector attracted the highest FDI equity inflow of US\$ 4.45 billion, followed by telecommunications sector - US\$ 4.28 billion, computer software and hardware – US\$ 4.02 billion, and trading – US\$ 2.14 billion.

During Q2 2019-20, India received the maximum FDI equity inflows from Singapore (US\$ 8.01 billion), followed by Mauritius (US\$ 6.36 billion), Netherlands (US\$ 2.32 billion), USA (US\$ 2.15 billion), and Japan (US\$ 1.78 billion).

Investments/ developments

Some of the recent significant FDI announcements are as follows:

- In January 2020, Amazon India announced investment of US\$ 1 billion for digitising small and medium businesses and creating one million jobs by 2025.
- In January 2020, Mastercard announced its plans to invest up to US\$ 1 billion in India over next five years to double-up its research and development efforts for the Indian market.
- In October 2019, French oil and gas giant Total S.A. have acquired a 37.4 per cent stake in Adani Gas Ltd for Rs 5,662 crore (US\$ 810 million) making it the largest Foreign Direct Investment (FDI) in India's city gas distribution (CGD) sector.
- In August 2019, Reliance Industries (RIL) announced one of India's biggest FDI deals, as Saudi Aramco will buy a 20 per cent stake in Reliance's oil-to-chemicals (OTC) business at an enterprise value of US\$ 75 billion.
- In October 2018, VMware, a leading software innovating enterprise of US has announced investment of US\$ 2 billion in India between by 2023.
- In August 2018, Bharti Airtel received approval of the Government of India for sale of 20 per cent stake in its DTH arm to an America based private equity firm, Warburg Pincus, for around \$350 million.
- In June 2018, Idea's appeal for 100 per cent FDI was approved by Department of Telecommunication (DoT) followed by its Indian merger with Vodafone making Vodafone Idea the largest telecom operator in India
- In May 2018, Walmart acquired a 77 per cent stake in Flipkart for a consideration of US\$ 16 billion.

- In February 2018, Ikea announced its plans to invest up to Rs 4,000 crore (US\$ 612 million) in the state of Maharashtra to set up multi-format stores and experience centres.

Routes through which India gets FDI

Automatic route: The non-resident or Indian company does not require prior nod of the RBI or government of India for FDI.

Govt route: The government's approval is mandatory. The company will have to file an application through Foreign Investment Facilitation Portal, which facilitates single-window clearance. The application is then forwarded to the respective ministry, which will approve/reject the application in consultation with the Department for Promotion of Industry and Internal Trade (DPIIT), Ministry of Commerce. DPIIT will issue the Standard Operating Procedure (SOP) for processing of applications under the existing FDI policy.

Sectors which come under the ' 100% Automatic Route' category are

Agriculture & Animal Husbandry, Air-Transport Services (non-scheduled and other services under civil aviation sector), Airports (Greenfield + Brownfield), Asset Reconstruction Companies, Auto-components, Automobiles, Biotechnology (Greenfield), Broadcast Content Services (Up-linking & down-linking of TV channels, Broadcasting Carriage Services, Capital Goods, Cash & Carry Wholesale Trading (including sourcing from MSEs), Chemicals, Coal & Lignite, Construction Development, Construction of Hospitals, Credit Information Companies, Duty Free Shops, E-commerce Activities, Electronic Systems, Food Processing, Gems & Jewellery, Healthcare, Industrial Parks, IT & BPM, Leather, Manufacturing, Mining & Exploration of metals & non-metal ores, Other Financial Services, Services under Civil Aviation Services such as Maintenance & Repair Organizations, Petroleum & Natural gas, Pharmaceuticals, Plantation sector, Ports & Shipping, Railway Infrastructure, Renewable Energy, Roads & Highways, Single Brand Retail Trading, Textiles & Garments, Thermal Power, Tourism & Hospitality and White Label ATM Operations.

Government Initiatives

In December 2019, government permitted 26 per cent FDI in digital sectors.

In August 2019, government permitted 100 per cent FDI under the automatic route in coal mining for open sale (as well as in developing allied infrastructure like washeries).

In Union Budget 2019-20, the government of India proposed opening of FDI in aviation, media (animation, AVGC) and insurance sectors in consultation with all stakeholders.

100 per cent FDI is permitted for insurance intermediaries.

As of February 2019, the Government of India is working on a road map to achieve its goal of US\$ 100 billion worth of FDI inflows.

In February 2019, the Government of India released the Draft National E-Commerce Policy which encourages FDI in the marketplace model of e-commerce. Further, it states that the FDI policy for e-commerce sector has been developed to ensure a level playing field for all participants.

Government of India is planning to consider 100 per cent FDI in Insurance intermediaries in India to give a boost to the sector and attracting more funds.

In December 2018, the Government of India revised FDI rules related to e-commerce. As per the rules 100 per cent FDI is allowed in the marketplace-based model of e-commerce. Also, sales of any vendor through an e-commerce marketplace entity or its group companies have been limited to 25 per cent of the total sales of such vendor.

In September 2018, the Government of India released the National Digital Communications Policy, 2018 which envisages increasing FDI inflows in the telecommunications sector to US\$ 100 billion by 2022.

In January 2018, Government of India allowed foreign airlines to invest in Air India up to 49 per cent with government approval. The investment cannot exceed 49 per cent directly or indirectly.

No government approval will be required for FDI up to an extent of 100 per cent in Real Estate Broking Services.

The Government of India is in talks with stakeholders to further ease foreign direct investment (FDI) in defence under the automatic route to 51 per cent from the current 49 per cent, in order to give a boost to the Make in India initiative and to generate employment.

Sectors which come under up to 100% Automatic Route' category are

Infrastructure Company in the Securities Market: 49%

- Insurance: up to 49%
- Medical Devices: up to 100%
- Pension: 49%
- Petroleum Refining (By PSUs): 49%
- Power Exchanges: 49%

Government route

Sectors which come under the 'up to 100% Government Route' category are

Banking & Public sector: 20%

- Broadcasting Content Services: 49%
- Core Investment Company: 100%
- Food Products Retail Trading: 100%

- Mining & Minerals separations of titanium bearing minerals and ores: 100%
- Multi-Brand Retail Trading: 51%
- Print Media (publications/ printing of scientific and technical magazines/ specialty journals/ periodicals and facsimile edition of foreign newspapers): 100%
- Print Media (publishing of newspaper, periodicals and Indian editions of foreign magazines dealing with news & current affairs): 26%
- Satellite (Establishment and operations): 100%

FDI prohibition

There are a few industries where FDI is strictly prohibited under any route. These industries are

Atomic Energy Generation

- Any Gambling or Betting businesses
- Lotteries (online, private, government, etc)
- Investment in Chit Funds
- Nidhi Company
- Agricultural or Plantation Activities (although there are many exceptions like horticulture, fisheries, tea plantations, Pisciculture, animal husbandry, etc)
- Housing and Real Estate (except townships, commercial projects, etc)
- Trading in TDR's
- Cigars, Cigarettes, or any related tobacco industry

FDI inflow

During the fiscal ended March 2019, India received the highest-ever FDI inflow of \$64.37 billion. The FDI inflows were \$45.14 billion during 2014-15 and \$55.55 billion in the following year.

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