A retrospective view of foreign direct investment in India

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Abstract It is the central issue in international business and in international economics to make global investment strategies. Capital formation is very essential for economic growth. Foreign direct investment (FDI) plays a complementary role in overall capital formation by satisfying the space between domestic savings and investment.Sometimes domestically existing wealth is insufficient for the purpose of overall development of the country. Foreign capital is seen as an approach of satisfying in gaps between household savings and investment. India can magnetize much larger foreign investments than it has done in the past. The present study has focused on the trends of FDI Flow in India during 2000-01 to 2014-15 (up to June, 2015). The study also highlights country wise contribution in foreign direct investment. The study is based on Secondary data which have been collected through reports of the Ministry of Commerce and Industry, Department of Industrial Promotion and Policy, Government of India, Reserve Bank of India, and World Investment Report. The study concludes that foreign direct investment plays a significant role on the growth of economy. It also concludes that FDI is available mostly in the developing countries.

Keywords: Growth, capital formation, foreign direct investment, economy.

Introduction

Foreign direct investment (FDI) is an express investment into production or business in a country by a company in a different country, either by buying a company in the mark country or by escalating operations of an existing business in that country. Foreign Direct investment plays a very vital role in the progress of the nation. FDI provides a win – win situation to the host and the home countries. Both countries are directly interested in inviting FDI, because they benefit a lot from such type of investment. India is supposed to be one of the most worthwhile grounds for investing, in the eyes of the wealthy European as well as American investors. The past locale of FDI in India can be traced back with the establishment of East India. Foreigninvestment playsa significant role in development of any economyas like India. Manycountriesprovidemany incentivesfor attractingthe foreign direct investment (FDI). Need of FDIdependsonsaving and investment rate inany country. Foreign Direct investment acts asa bridge to fulfill the gap between investment and saving. (Singh J. 2012) Further, after Independence issues relating to foreign capital, operations of MNCs, gained attention of the policy makers. There are high variations in the inflows of FDI equity.

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Maximum contribution (28 percent) of FDI inflows in service sector and the Maharashtra, Dadra &Nagarhavali, Daman & Diu got the highest inflows which are 32% of total FDI (Dimple Goyal and Ritu Jain) (2014).Prior to 1991, the FDI policy structure in India was extremely regulated. The government intended at exercising power over foreign exchange dealings. All transactions in foreign exchange were regulated under the Foreign Exchange Regulation Act (FERA), 1973, the breach of which was a criminal offence. With the help of this Act, the government attempted to preserve foreign exchange capital for the economic development of the nation. As a result the process of investment was overwhelmed with many obstacles with corrupt practices that became component of bureaucratic procedures. Under the deregulated system, FERA was introduced to initiate the Foreign Exchange Management Act (FEMA), 1999. The new Act was less rigorous and aimed at humanizing the capital account management of foreign exchange in India. The Act sought to facilitate external trade and payments and to support orderly development and safeguarding of the foreign exchange market in India. It resulted in better way in to foreign exchange. In 2012, UNCTAD survey anticipated India as the second most important FDI target for global corporations during 2010–2012. With its steady increased presentation and rich high-skilled manpower, India provides massive opportunities for investment. India also provides a liberal, attractive, and investor friendly investment climate. FDI in sectors/activities to the level allowable under usual route does not necessitate any prior sanction either by the Government or RBI. FDI in actions not covered under the regular route requires prior Government approval. Such proposals are considered by the Foreign Investment Promotion Board (FIPB). An increase in FDI may be linked with improved economic growth due to the incursion of capital and increased tax revenues for the host country. Host nations frequently strive to channel FDI investment into new connections and additional projects to enhance development. Better challenge from new companies can show the way to output gains and better effectiveness in the host country and it has been recommended that the claim of a foreign entity’s policies to a domestic supplementary may recover corporate governance principles. Besides, foreign outlay can result in the transfer of soft skills all the way through guidance and job formation, the presence of further superior technology for the domestic market.

Lack of proper infrastructure, instable government and political environment, high corporate tax rates and limited export processing zones are considered to be the major problems for low FDI into the country. To overcome this situation, the Government should revise the sectoral cap and bring more sectors under the automatic route. Further, India should sign the agreement of Double Taxation treaties with other countries in order to increase bilateral trade. Therefore, there is an urgent need to adopt innovative policies and good corporate governance practices on par with international standards, by the Government of India, to attract more and more foreign capital in various sectors of the economy to make India a developed economy(R. Anitha) (2012).

Routes of FDI in Indian companies

Indian companies can get Foreign Direct Investment under the following routes:

1. Automatic Route: It happen when

foreign direct investment is allowed exclusive of former sanction either of the Government or the Reserve Bank of India in all tricks as precise in the Policy, sanctioned by the Government of India.

2. Government Route: This type of foreign direct investment requires prior approval of the Government.

Literature review

Kumar V. (2012) explains in his study that flow of FDI and GDP are positively correlated with each other and the country's GDP is showing a positive movement with flow of Foreign Direct Investment in India. The flow of FII and FDI also shows the positive correlation with each other. Singh J. (2012) explains in his study that maximum global foreign investments flows are attracted by the developed countries rather than developing and under developing countries highest amount of FDI gone to financing sector, insurance sector, Real estate and Business services which is 33.05 percent of total cumulative inflow of FDI in study period in India.

Malhotra B. (2014) explains that India's Foreign Direct Investment (FDI) policy has been gradually liberalised to make the market more investor friendly. FDI inflow supplements domestic capital, as well as technology and skills of existing companies.Kaur R. Nitika(2014) reveals in their study that the services sector accounted for a steeply rising share of FDI stocks in India followed by construction development, Telecommunications and Computer Software & Hardware.

Objectives of the study

1. To find out the trends of foreign direct investment during 2000-01 to 2014-15 (up to June, 2015)
2. To examine the country wise contribution in foreign direct investment.
3. To explore the sector wise distribution of FDI inflows.

Research methodology

The present study is based on Secondary data. The secondary data was collected from reports of the Ministry of Commerce and Industry, Department of Industrial Promotion and Policy, Government of India, Reserve Bank of India, and World Investment Report. The time period of the study has been taken April 2000 to June, 2015).

Table 1 reveals flow of foreign direct investment since 2000-01. In 2001-02 it was 18,654 crores and 4,065 which was 65 percent more in comparison to 2000-01. From 2004-05 to 2008-09 there was continuous increase in FDI. In 2009-10 it was decreased with 18 percent in comparison to 2008-09. During the year 2014-15 foreign direct investment was at its highest i.e 189,107 crores. During 2015-16 (up to June) it was 60,298 crores. We can say that from 2000-01 to 2014-15 there was an increase of 1665.54 percent in foreign direct investment.

Table 1 Financial Year Wise FDI Inflows

S. Nos	Financial Year (April – March)	Amount of FDI Inflows		%age growth over previous year (in terms of US $)
FINANCIAL YEARS 2000-01 to 2015-16 (up to June, 2015)		In Rs crores	In US$ million	
1.	2000-01	10,733	2,463	-
2.	2001-02	18,654	4,065	(+) 65 %
3.	2002-03	12,871	2,705	(-) 33 %
4.	2003-04	10,064	2,188	(-) 19 %
5.	2004-05	14,653	3,219	(+) 47 %
6.	2005-06	24,584	5,540	(+) 72 %
7.	2006-07	56,390	12,492	(+)125 %
8.	2007-08	98,642	24,575	(+) 97 %
9.	2008-09	142,829	31,396	(+) 28 %
10.	2009-10	123,120	25,834	(-) 18 %
11.	2010-11 #	97,320	21,383	(-) 17 %
12.	2011-12 # ^	165,146	35,121	(+) 64 %
13.	2012-13 #	121,907	22,423	(-) 36 %
14.	2013-14 #	147,518	24,299	(+) 8%
15.	2014-15 #	189,107	30,931	(+) 27%
16.	2015-16 # (Apr - June 2015)	60,298	9,508	
CUMULATIVE TOTAL (from April, 2000 to June, 2015)		1,293,836	258,142	-

Source: dipp.nic.in/English/Publications/**FDI**.../india_**FDI**_January2015.pdf

FDI in different sectors

The Sector wise Analysis of FDI Inflow in India reveals that maximum FDI has taken place in the service sector including the telecommunication, information technology, travel and many others. The FDI in Automobile Industry has experienced huge growth in the past few years. The increase in the demand for cars and other vehicles is powered by the increase in the levels of disposable income in India. The options have increased with quality products from foreign car manufacturers. The introduction of tailor made finance schemes, easy repayment schemes has also helped the growth of the automobile sector. For the past few years the Indian Pharmaceutical Industry is performing very well.

Table 2 Sector Attracting Highest FDI Equity Inflows

Ranks	Sector	2013-14 (April - March)	2014-15 (April-March)	2015-16 (April,15 – June, 15)	Cumulative Inflows (April '00 - June '15)	% age to total Inflows (In terms of US$)
1.	SERVICES SECTOR **	13,294 (2,225)	19,963 (3,253)	4,036 (636)	209,578 (43,350)	17 %
2.	CONSTRUCTION DEVELOPMENT: TOWNSHIPS, HOUSING, BUILT-UP INFRASTRUCTURE	7,508 (1,226)	4,582 (758)	216 (34)	113,355 (24,098)	9 %
3.	COMPUTER SOFTWARE & HARDWARE	6,896 (1,126)	13,564 (2,200)	16,245 (2,556)	89,481 (17,575)	7 %
4.	TELECOMMUNICATIONS (radio paging, cellular mobile, basic telephone services)	7,987 (1,307)	17,372 (2,895)	2,517 (395)	86,609 (17,453)	7 %
5.	AUTOMOBILE INDUSTRY	9,027 (1,517)	15,794 (2,570)	6,914 (1,094)	70,906 (13,477)	5 %
6.	DRUGS & PHARMACEUTICALS	7,191 (1,279)	9,211 (1,523)	1,370 (215)	66,652 (13,336)	5 %
7.	CHEMICALS (OTHER THAN FERTILIZERS)	4,738 (878)	4,077 (669)	1,598 (251)	50,909 (10,588)	4 %
8.	POWER	6,519 (1,066)	3,985 (657)	1,717 (271)	48,357 (9,828)	4 %
9.	TRADING	8,191 (1,343)	16,962 (2,761)	5,679 (897)	49,479 (8,958)	4 %
10	METALLURGICAL INDUSTRIES	3,436 (568)	2,897 (472)	845 (133)	41,992 (8,680)	3 %

Source: dipp.nic.in/English/Publications/FDI.../india_FDI_January2015.pdf

Table 2 reveals sectors attracting highest inflows. In 2013-14 and 204-15 service sector was attracting maximum part in foreign direct investment. But in 2015-16 computer and automobile industry has attracted huge part of investment because there was increase in the demand for cars and other vehicles. Still if we see cumulative investment from 2012-13 to 2015-16, service sector has attracted maximum part of foreign investment i.e 17% followed by computer and telecommunications.

Table 3 indicates contributions of top five countries in foreign direct investment. During 2013-14 contribution of Mauritius in comparison to 2012-13 declined with 54.15% and increased in 2014-15 with 59.08% in comparison to 2013-14. Contribution of Singapore showed a huge growth in 2013-14 with 175.08%. Contribution of USA and UK was less during 2012-13 and 2013-14, which showed a high jump in 2014-15 with 221.07% and 1603.60% respectively. Table also reveals that Mauritius had maximum contribution in foreign direct investment with 29.84% followed by Singapore 18.88% and Netherland 8.48%. Least contribution from 2012-13 to 2014-15 was of United Kingdom.

Table 3. Country Wise FDI Inflows

Top 5 Contributors					
Country	2012-13	2013-14	2014-15	Total Share in FDI	Share of each Country
Mauritius	8059	3695 (54.15)	5878 59.08	17632	29.84%
Singapore	1605	4415 175.08	5137 16.35	11157	18.88%
Netherlands	1700	1157 (31.94)	2154 86.17	5011	8.48%
Japan	1340	1795 33.95	2019 12.48	5154	8.72%
USA	478	617 29.08	1981 221.07	3076	5.21%
United Kingdom	1022	111 (89.14)	1891 1603.60	3024	5.12%
Total FDI	18286	16054 (12.21)	24748 54.15	59088	100%

Source: https://www.rbi.org.in/Scripts/AnnualReportPublications.aspx?Id=1110

NOTE:% in figures shows declining trend

Recent policy measures taken by government on foreign direct investment

- 100% foreign direct investment should be allowed in medical devices.
- FDI limit improved in insurance & sub-activities from 26% to 49%.
- 100% foreign direct investment is allowed in the telecom division.
- 100% foreign direct investment in sole-brand name retail was allowed.
- Foreign direct investment in stock exchanges, commodity exchanges, & depositories, petroleum refining by PSUs power exchanges, courier services under the government route has now been brought under the automatic route.
- Restriction was removed in tea plantation sector.
- Removal limit in credit information raised to 74% and 100% in asset reconstruction companies.
- Foreign direct investment limit of 26% in defense sector was raised to 49% under Government sanction route. Foreign Portfolio Investment up to 24% allowed under automatic route. FDI beyond 49% is also allowed on a case to case basis with the approval of Cabinet Committee on Security.
- Construction, operation and maintenance of specified activities of Railway sector opened to 100% foreign direct investment under automatic route.

Conclusion& findings

India is the biggest beneficiary of foreign direct investment crossways the world. India is measured as second major country along with all additional developing countries. India has elevated prospective to create a center of attention in FDI inflow. The present study found that Mauritius emerged as the most dominant source of FDI contributing 77,083.47 US$ million of the total investment in the country. Large part of FDI in India is contributed by fifteen countries which is 185506.59 US $ million. The study also reveals that service sector has attracted maximum part of foreign investment i.e 17% followed by computer and telecommunications. Mauritius had maximum contribution in foreign direct investment with 29.84% followed by Singapore 18.88% and Netherland 8.48%.

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