

Foreign direct investment in India

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Abstract

FDI (Foreign Direct Investment) is considered to be the lifeblood of economic development especially for the developing and underdeveloped countries. Foreign Direct Investment (FDI) has reached great extent in economic development witnessed during the past two decades in India. FDI has been a vital non-debt financial force behind the economic upsurge in India. Cheap cost wages and tax exemptions on the amount being invested are the few special investment vantages which attract foreign companies to invest in India. FDI help in transferring the financial resources, technology and innovative or improved management techniques along with increasing productivity. To ensure an uninterrupted inflow of FDI in India, the Indian government has initiated proper trade atmosphere and effective business policy measures.

Keywords: FDI (Foreign Direct Investment), economic development, Indian government, foreign companies.

1. Introduction

As per the International Monetary Fund (IMF), FDI is referred as an investment made to acquire lasting or a long-term interest in an enterprise operating outside by an investor. A Foreign Direct Investment (FDI) will control ownership in a business enterprise in one country by an entity based in another country as well. Foreign direct investment is different from portfolio foreign investment, a passive investment in the securities i.e. public stocks or bonds, by the element of "Control".

The Government has taken many steps to develop Foreign Direct Investment scenario in India. International entities like Carrefour and Walmart were enabled by Government to make an invest in the multi-brand retail market in India. The retail market in India is at growing stage and it is worth around 28 billion dollars. It is expected that in the year 2020, this value will reach approximately 260 billion dollars. 100 million dollars is the minimum amount that needs to be invested by a foreign entity to gain entry in India's retail market.

Recent Policy Measures

- 100% FDI in medical devices
- FDI cap increased from 26% to 49% in Insurance & sub-activities
- 100% FDI in telecom sector.
- 100% FDI in single-brand retail.
- FDI in stock exchanges & depositories, petroleum refining by PSUs, power exchanges, courier services and Commodity exchanges has now been brought under the automatic route from the government route.
- Restriction on tea plantation sector is removed.
- 100% in asset reconstruction companies and FDI limit is raised to 74% in credit information.
- FDI limit from 26% in defence sector is raised to 49% under Government approval route.
- 24% is permitted under automatic route in Foreign Portfolio Investment.
- 49% is also allowed on a case to case basis by the approval of Cabinet Committee for Security.

- 100% foreign direct investment in construction, maintenance and operation in railway sector under automatic route.

FDI is prohibited in

- Gambling and Betting.
- Nidhi Company.
- Business of Chit Fund.
- Agriculture (excluding floriculture, horticulture, apiculture and cultivation of vegetables and mushrooms under controlled conditions, the development and production of seeds & planting materials, animals husbandry including the breeding of dogs, viticulture & aquaculture under controlled conditions and services related to the agro and allied sector).
- Atomic Energy.
- Lottery Business.
- Manufacturing of cheroots, cigars, cigarillos or cigarettes, tobacco or of Tobacco substitute.
- Construction of Farm Houses or Real Estate Business.

Road Ahead

India has ranked 9th in top ten countries which attracts highest FDI in 2014 as compared to 15th position previous year as per According to UNCTAD (United Nations Conference on Trade and Development) World Investment Report 2015. The report also mentioned that the Foreign Direct Investment inflows to India are likely to show an upward trend in coming years with respect to economic recovery.

Review of Literature

Shalini Aggarwal (2012): This paper tries to study the sector-wise & year-wise analysis of FDI's in India, to rank the sectors based upon the highest FDI inflows. This paper concludes that there is raise in output, productivity and employment in some sectors especially in service sector.

Singh S., Singh M (2011): This study reveals the trend of FDI inflow to India using time series data during 1970–2007. It also

aims to study the reasons for fluctuations of the FDI inflow in India and to find the cause that is responsible for those fluctuations of trends in India.

Mahanta Devajit (2012): The main purpose of the study is to investigate the impact of FDI on economic growth in India. The study also tries to find out how FDI seen as an important economic catalyst of Indian economic growth by stimulating domestic investment, increasing human capital formation and by facilitating the technology transfers.

Objectives of Study

- To exhibit the sector-wise & year-wise analysis of FDI's in India.

- To rank the sectors based upon highest FDI inflows.
- To rank the country – wise FDI inflows in India.

Research Methodology

The secondary data was collected from various magazines, journals and websites particularly from the DIPP (Department of Industrial Policy & Promotion), Ministry of Commerce and Industry etc. The study is based on the time period from 2010-2015. Graphs and tables have also been used to depict statistical data of FDI during the study period.

Analysis of FDI Inflows and Interpretation

Table 1: Sectors Attracting Highest FDI Equity Inflows in India (Value In Crore)

Ranks	Sector	2009-10 (April-March)	2010-11 (April-March)	2011-12 (April-March)	2012-13 (April-March)	2013-14 (April-March)	2014-15 (April-March)	2015-16 (April,15-June,15)	Cumulative Inflows (April '00-June '15)
1.	Service	19,945 (4,176)	15,053 (3,296)	22,771 (4,836)	26,306 (4,833)	10,680 (1,804)	7,366 (1,225)	209,578 (43,350)	17%
2.	Construction activities	13,469 (2,852)	4,979 (1,103)	10,859 (2,230)	7,248 (1,332)	7,508 (1,226)	3,410 (568)	113,355 (24,098)	9%
3.	Tele communications	12,270 (2,539)	7,542 (1,665)	8,984 (1,992)	1,654 (304)	14,689 (2,465)	81,407 (16,628)	86,609 (17,453)	7%
4.	Computer hardware & software	4,127 (872)	3,551 (780)	3,312 (698)	2,656 (486)	2,532 (421)	62,202 (13,239)	89,481 (17,575)	7%
5.	Drugs & pharmaceuticals	1,006 (213)	961 (209)	14,482 (3,208)	6,011 (1,123)	6,519 (1,091)	62,589 (12,689)	66,652 (13,336)	5%
6.	Automobile industry	5,893 (1,236)	5,864 (1,299)	2,916 (635)	8,384 (1,537)	6,273 (1,035)	54,469 (10,847)	70,906 (13,477)	5%
7.	Chemicals	14,027 (2,135)	15,600 (2,227)	17,750 (2,971)	18,422 (4,041)	2,485 (414)	47,719 (10,081)	50,909 (10,588)	4%
8.	Power	6,138 (1,272)	5,796 (1,272)	7,262 (1,569)	2,923 (536)	2,457 (410)	45,112 (9,310)	48,357 (9,828)	4%
9.	Metallurgical Industries	1,999 (420)	5,023 (1,098)	7,700 (1,655)	7,878 (1,466)	1,183 (197)	39,433 (8,271)	41,992 (8,680)	3%
10.	Hotel & tourism	8,745 (1,451)	6,584 (821)	4,754 (993)	17,777 (3,259)	2,949 (486)	2,493 (415)	38,702 (7,532)	3%

Source: As per DIPP's FDI database (2015)

Interpretation

The above table shows the leading sectors for FDI in India. According to FDI report, Service sector is the leading sector with highest FDI inflow 17% followed by Construction sector

(including roadways & highways) with 9%. There is a good future prospect for investors in other sectors also like Tele communication, Computer Hardware & Software.

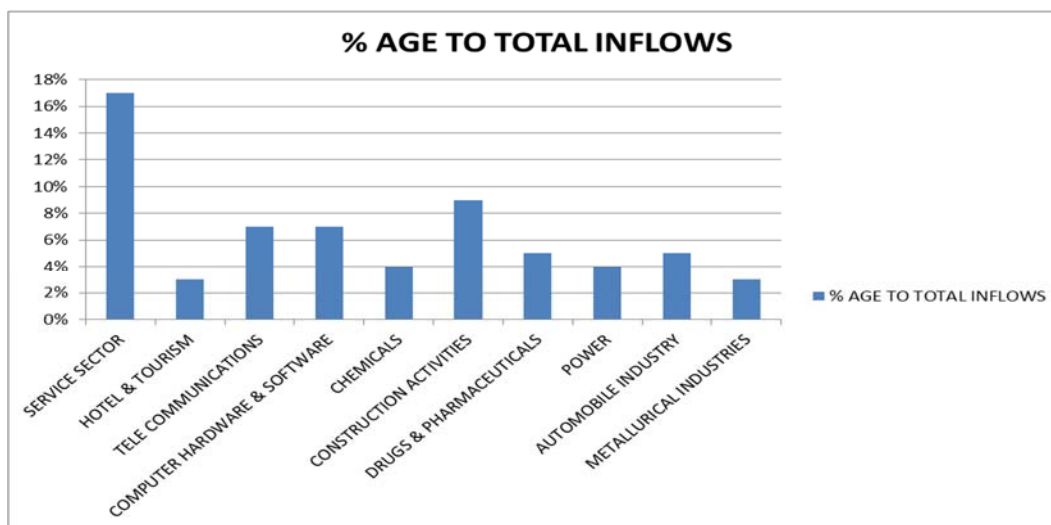


Chart 2: FDI Equity Flow in India

Table 3: Amount of Foreign Direct Investment Inflows Country Wise Amount Rupees in crores (US\$ in million)

S. No	Name of the Country	2009-10 (April-March)	2010-11 (April-March)	2011-12 (April-March)	2012-13 (April-March)	2013-14 (April-March)	2014-15 (April-March)	2015-16 (April,15-June,15)	Cumulative Inflows (April '00-June '15)	%age with Inflows
1.	Mauritius	49633 (10,376)	31,855 (6987)	44116 (9426)	51654 (9497)	29360 (4859)	55172 (9030)	13236 (2089)	438892 (89644)	35%
2.	Singapore	11295 (2379)	7730 (1705)	23770 (5070)	12594 (2308)	35625 (5985)	26246 (4313)	23320 (3673)	190477 (35861)	14%
3.	United Kingdom	3097 (657)	3434 (755)	12525 (2758)	5797 (1080)	20426 (3215)	6170 (1029)	755 (119)	110409 (22329)	9%
4.	Japan	5670 (1183)	7063 (1562)	13570 (2869)	5797 (1080)	20426 (3215)	6170 (1029)	2916 (459)	96312 (18811)	7%
5.	Netherlands	4283 (899)	5501 (1213)	5741 (1219)	10054 (1856)	13920 (2270)	15630 (2579)	4123 (652)	81381 (15323)	6%
6.	U.S.A	9230 (1943)	5353 (1170)	4648 (976)	30333 (557)	4807 (806)	9010 (1480)	3956 (627)	70839 (14378)	6%
7.	Germany	2980 (626)	908 (200)	7084 (1549)	4684 (860)	6093 (1038)	4703 (771)	3497 (554)	42007 (8198)	3%
8.	Cyprus	7728 (1627)	4171 (913)	6925 (1429)	2658 (490)	3401 (557)	2905 (481)	608 (96)	39971 (8140)	3%
9.	France	1437 (303)	3349 (737)	2872 (615)	3487 (646)	1842 (305)	3499 (573)	877 (138)	23465 (4651)	2%
10.	Switzerland	102 (96)	234 (133)	511 (293)	987 (180)	2084 (341)	1359 (223)	598 (94)	15812 (3139)	1%

*Includes inflows under NRI Schemes of RBI. Note: (i) Cumulative country-wise FDI equity inflows (from April, 2000 to June, 2015) are at – Annex-'A'. (ii) % age worked out in US\$ terms & FDI inflows received through FIPB/SIA+ RBI's Automatic Route + acquisition of existing shares only.

Source: DIPP's FDI database (2015)

Interpretation

The above table depicts the country having the highest FDI in India. The report shows that the MAURITIUS country has the

highest foreign investor in India with 34.74% followed by Singapore and United Kingdom which invest the highest FDI in India with 13.90% and 8.65% respectively.

Table 4: FDI Equity Inflows in India

1.	Financial Year 2000-01 to 2015-16 (up to June, 2015)	Amount of FDI Equity inflows		% age growth over previous year (in terms of US \$)
		(in Rs. Crore)	(In US\$ mn)	
2.	2000-01	10733	2463	-
3.	2001-02	18654	4065	(+) 65%
4.	2002-03	12871	2705	(-) 33%
5.	2003-04	10064	2188	(-) 19%
6.	2004-05	14653	3219	(+) 47%
7.	2005-06	24584	5540	(+) 72%
8.	2006-07	56390	12492	(+) 125%
9.	2007-08	98642	24575	(+) 97%
10.	2008-09	142829	31396	(+) 28%
11.	2009-10	123120	25834	(-)18%
12.	2010-11	97320	21383	(-)17%
13.	2011-12	165146	35121	(+) 64%
14.	2012-13	121907	22423	(-) 36%
15.	2013-14	147518	24299	(+) 8%
16.	2014-15	189107	30931	(+) 27%
Cumulative Total (from April 2000 to June 2015)		1293836	258142	-

Note: i) Including amount remitted through RBI's – NRI Schemes (2000-2002).ii) FEDAI(Foreign Exchange Dealers Association of India) conversion rate from Rupees to US dollar applied, on the basis of monthly average rate provided by RBI(DEPR), Mumbai.# Figures for the year 2010-11 to 2015-16 are provisional subject to reconciliation with RBI. In flows for the month of March, 2012 are as reported by RBI, consequent to the adjustment made in the figures of March, 2011, August 2011 and October 2011.

Source: DIPP's FDI database (2015)

Interpretation

The above table shows the total amount of FDI inflows in India from 2000-2015. It is noted that there is fluctuation in FDI inflow during the period 2000-2004 and in the next few years, there is gradual increase in amount of FDI inflows. Irrespective

of the global meltdown in 2007-08 to 2009-10 and rupee depreciation in 2012-13, show the stagnation and not the decline in the inflow of FDI in India. Then, there is increase of FDI inflow in 2014-15 i.e., 189107(Rs. in Crore).

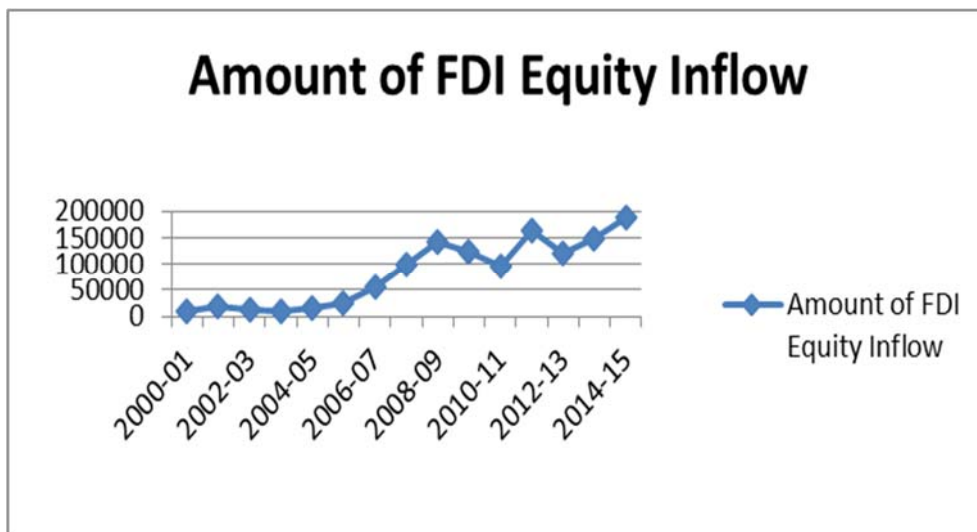


Chart 3: FDI Equity Inflows in India

Findings

- FDI shown a tremendous growth in second decade (2000 - 2015) that is three times then the first decade of FDI in services sector.
- FDI create huge peak of jobs for skilled employee in Indian economy.
- Service sector is first followed by Construction activities segment of which picked up the growth in second decade of reforms in India.
- FDI plays an important role in the development of infrastructure because many countries invest in the service, infrastructure sector and banking finance sectors.
- Mauritius and Singapore is the 2 top countries which has maximum FDI in India.

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Conclusion

Thus, it can be observed that at the sectoral level of the Indian economy, FDI has helped to raise the productivity, output and employment in many sectors. Indian service sector is generating the proper employment options for skilled worker with high perks. So, we can conclude that FDI support the small scale industries and helps the country to put an impression on the World wide level through Liberalization and Globalization.

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