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A STUDY OF TRENDS AND PATTERNS OF FOREIGN DIRECT INVESTMENT IN INDIA

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ABSTRACT

The importance of FDI can be explained by analyzing its need and influence on Indian economy, the need for FDI is pretty simple, as right after the balance of payment crises it became pretty clear that India will not have much domestic investment unless the private sector is liberalized and supported by the government. Even if big bang reforms take place it will need some time to settle things down, so for the time being the major investment had to come from elsewhere i.e. FDI liberalization schemes must be rolled out. Foreign capital has been assigned a significant role in the Indian economy. Indian Foreign Investment policy has been formulated with a view to inviting and encouraging Foreign Direct Investment into India. Equity capital and Reinvested Earning and other capital consisting short term and long term borrowing are three main basic categories of FDI. The role of Foreign Direct Investment (FDI) in the up gradation and advancement of technology, skills and managerial capabilities is now acknowledged. There are two investment routes in India. Under the automatic route with some exception FDI up to 100 is allowed in most sectors. There are many sectors still prohibited for FDI. These are sectors which were prohibited for foreign direct investment i.e. lottery business, gambling and betting, chit funds, nidhi company, real estate business, manufacturing of cigars and tobacco. And some sectors were not open to private sector i.e., Atomic Energy and Railway operations for FDI as per FDI Policy August, 2017.

Keywords: *FDI, RBI, MNCs, Foreign Capital and Balance of Payment (BOP).*

Introduction

India certainly can be considered as an emerging economic power and FDI has contributed to its growth in multidimensional way to it, Foreign Direct Investment (FDI) is the key components of the movement towards economic globalization. It is well known that FDI is one of the most dynamic international resource flows to developing countries. Over the last three decades, many countries around the world have experienced substantial growth in their economies, with even faster growth in international transactions, especially in the form of foreign direct investment (FDI). FDI is any investment made by a foreign country in the domestic (host country) assets such as companies, organizations, buildings and factories. The foreign company may invest either by opening its branch or by having a subsidiary in home country. The prime motive of such an investment was to get profit. It may be in form of a royalty and dividend payments. In the mixed economy of India, foreign capital (FI) has been assigned a important role, although it has been changing over time. It also provides foreign capital, funds, and expertise and job opportunities to the host nation. The Make in India initiated was launched in 25 September, 2014 to increase of FDI inflow. The Indian foreign investment policy has been formulated with a view to inviting and encouraging FDI into India.

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In now days FDI is regarded as an engine of growth it provides much needed capital for investment in any nation. The Foreign country may carry out foreign direct investment in different ways depending on the requirement of the nation. Overall the aim of these is to grab a quick 10% voting power of the domestic company this target could be achieve by incorporating an existing subsidiary or a wholly owned company. Many companies adopt and go for a merger or acquisition (M&A) of a completely different company.

The proponents of foreign investment (FI) point out that the exchange of investment flows benefits both the home/ host country (the country from which the investment originates) and the host country (the destination of the investment). It is witnessed that in the recent time FDI playing a crucial role in development of a country. FDI can affect growth and development by complementing domestic investment and by facilitating trade and transfer of knowledge and technology. It can provide a firm with new markets and marketing channels, cheaper production facilities, minimizing the costs, access to new technology, capital, processes, products, organizational technologies, management skills, and financing and as such can provide a strong impetus to economic development.

The opponents of Foreign Direct Investment (FDI) note that multinational conglomerates are able to wield great power over smaller and weaker economies and can drive out much local competition. Nations disadvantages are such as: the economically backward section of the host country is always inconvenienced when the stream of Foreign Direct Investment (FDI)is negatively affected; the host country has to limit the extent of impact that may be made by the foreign direct investment (FDI). They have to make sure that the entities that are making the foreign direct investment in their country adhere to the environmental, governance and social regulations that have been laid down in their country lest they may be affected causing the deterioration of their working system; the national secret of the host country gets affected as there may be lot of things which are not meant to be disclosed to the rest of the world.

This may result to be a serious security hazard to the defense of the host country; the foreign policies involved in the FDI may not be liked by the workers of host country; it results into loss to the countries who want to invest on their own as they are deprived of that opportunity due to competition; high travel and communications expenses occur; the language and cultural barrier may pose problems between the investor and the host country; it may be possible that a company may lose out on its ownership to an investor company. Significance and role of foreign direct investment in development a country has been supported by the following studies.

Objectives of the Study

The basic objective is to examine the role andrecent trends of FDI inflows in India. More elaborately, it aims at:

- To analyze the Sectoral wise FDI equity inflows in India.
- To analyze the recent trends and patterns of FDI inflows in India.

For the accomplishment of the above objectives, following methodology has been applied in this study.

Methodology of the Study

The present research work is tries to analyses the growth of FDI inflows and recent trends of FDI inflows in India during 2000-01 to 2017-18. India is purposively selected for the present study because as we know that India has huge potential for FDI inflows. The present study is based on secondary data published by various publications of government of India and other organizations i.e. Ministry of Commerce and Industry, Department of Industrial Promotion and Policy (DIPP) Government of India, Reserve Bank of India (RBI), and World Investment Report (WIR), research work and books available in library. The analysis of collected data has been done with various statistical tools i.e. growth rate, percentage, graph and diagram etc.

Analysis and Discussion

Foreign Direct Investment is considered to be the lifeblood or dominant factor of economic development especially for the developing and underdeveloped countries of the world economy. Foreign direct investment plays an important and significant role in the long-term development of a country not only as a source of capital but also for enhancing competitiveness of the domestic economy through transfer and up graduation of technology, strengthening infrastructure facility, raising productivity and generating new employment opportunities in the economy.

In this era of globalization India adopting a liberal policy for foreign investment it is resulting that several of countries investing in India but major investing countries are shown in given below table.

- **FDI Inflows in India by Major Countries**

India is developing very fast as a nation and its economy is growing steadily opening new avenues for people to start businesses. The country is extraordinarily rich in various resources and offers very cheap labor that entrepreneurs can make great use of. Doing business in India is a lucrative option for people having financial strength and the will to take the risk. The best thing about the country is that majority of the industries and sectors are almost untapped and hence the fear of facing stiff competition is less. Young Indian entrepreneurs have identified these sectors and have started to make foray but yet, there are lots of scopes for the international business houses to start ventures here, since the country is inviting FDI in various sectors.

Table 1: Cumulative FDI Inflows in India by Countries (From 2000-01 to 2017-18)

Rank	Country	Cumulative Inflows (in crores Rs)	% Share in total
1	Mauritius	688442	34
2	Singapore	393584	18
3	Japan	152630	7
4	U.K.	131018	7
5	Netherlands	135215	6
6	U.S.A.	124037	6
7	Germany	59435	3
8	Cyprus	49411	3
9	France	33934	2
10	U.A.E.	32853	2
	Total	2075911	-

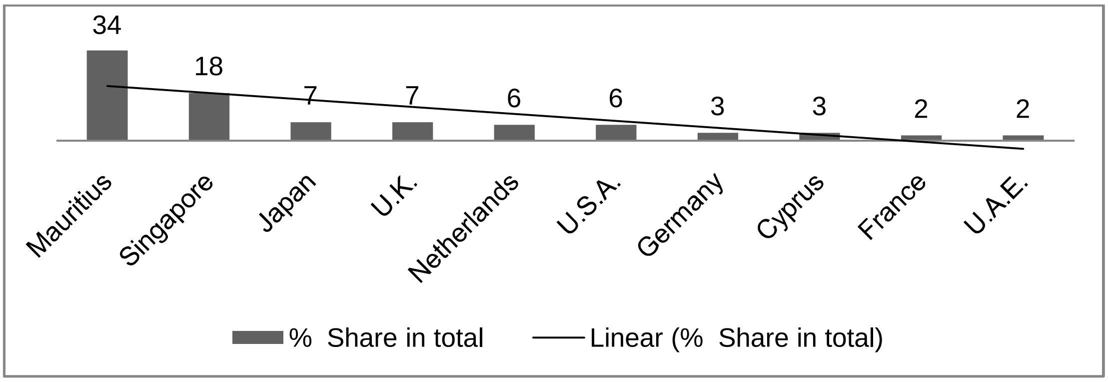
Source: Fact sheet on foreign direct investment by RBI, March 2018

Note:

- Includes inflows under NRI schemes of RBI.
- %age worked out in US$ terms & FDI inflows received through FIPB/SIA+ RBI's Automatic Route + acquisition of existing shares only.

The above table-1 and figure shows that for the source of foreign direct investment major countries are: Mauritius, Singapore, Japan, U.K., Netherlands, U.S.A., Germany, Cyprus, France, and U.A.E.

Figure 1: Cumulative FDI Inflows in India by Major Countries (from 2000-01 to 2017-18)



Further data reveals that Mauritius is biggest source of FDI inflows with the share of 34 % in India. Singapore is 2nd with the share of 18%. Japan and U.K. shows equal share of FDI inflows that is 7 percentages. During the period of 2000-01 to 2017-18 cumulative inflows of FDI is 2075911 crores.

- **Sectoral wise of FDI in India**

Foreign direct Investment (FDI) in India is certainly a term that is alluring plenty of international business persons and firms to jump into ventures in this Country with huge business potential. Some of the existing and emerging sectors with grand scopes for doing business in this country are: Service Sector includes (financial, banking, insurance, non- financial/ business, outsourcing, R&D, courier, tech.

testing and analysis), Tourism, Automobile, Textile, Social ventures, Software, Engineering goods, Franchising, Training & education, Food processing, Corporate demands, Ayurveda & traditional medicine, Organic farming, Media, Toys, Packaging, Healthcare, Energy solutions.

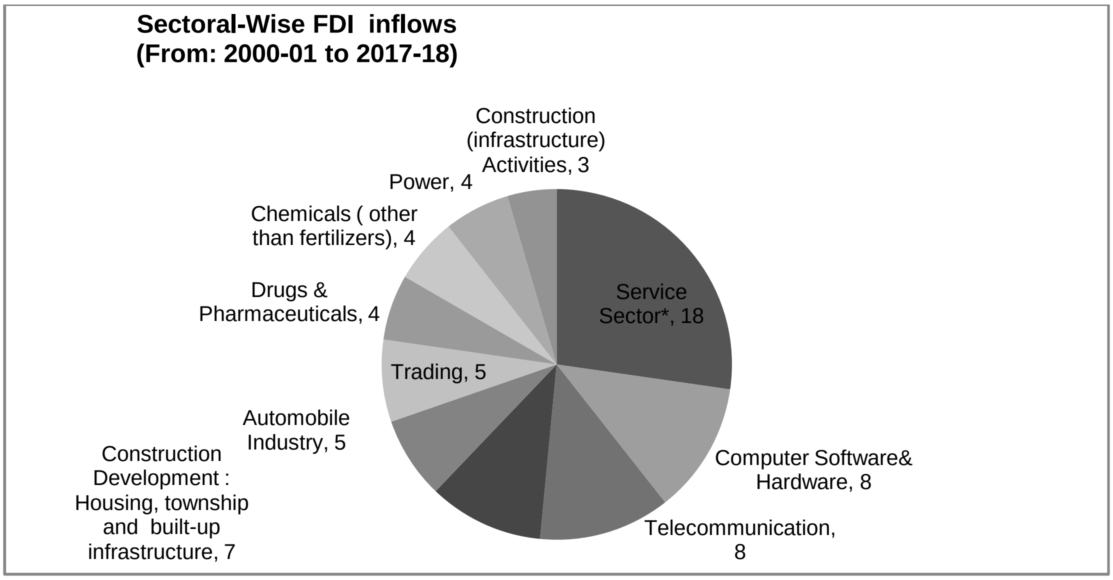
Table 2: Sectoral-Wise FDI Inflows (From: 2000-01 to 2017-18)

Rank	Sector	Cumulative Inflows (In Crore Rs.)	% of Total FDI Inflows
1	Service Sector*	359817	18
2	Computer Software & Hardware	176459	8
3	Telecommunication	169912	8
4	Construction Development: Housing, township and built-up infrastructure	118111	7
5	Automobile Industry	105679	5
6	Trading	112635	5
7	Drugs & Pharmaceuticals	82322	4
8	Chemicals (other than fertilizers)	77377	4
9	Power	70559	4
10	Construction (infrastructure) Activities	77946	3

Source: Fact sheet on foreign direct investment by RBI, March 2018

The table-2 and figure shows major sectors which are attracting highest FDI inflows in Indian economy. In Indian economy, Foreign Direct Investment is consider as a developmental tool, which can help in achieving self-reliance in various sectors of the economy. As per the study, the sectors which attracted highest FDI were: Service Sector includes (financial, banking, insurance, non- financial/ business, outsourcing, R&D, courier, tech. testing and analysis) with share of 18%, computer software& hardware, telecommunication, construction development: housing, township and built-up infrastructure, automobile industry and trading both sectors show equal share of 5%, drugs & pharmaceuticals, chemicals (other than fertilizers) , power all three sectors shows equal share of FDI i.e. 4%, construction (infrastructure) activities share is 3% etc.

Figure 2: Sectoral-Wise FDI Inflows(From: 2000-01 to 2017-18)



Source: Fact sheet on foreign direct investment by RBI, March 2018

- **FDI Growth and Trends in India**

The capital formation is an important determinant of economic growth. FDI in India has played a significant role in the development of the economy. India has introduced many policy reforms to attract FDI inflows. The trends of FDI inflow in India during 2000-01 to 20167-18 is presented in table-3 It is observed from the table-3 that FDI inflows received by the India during 2000-01 to 2017-18 is fluctuate many time, when they hit the highest point at 291696 thousands. During 2016-17 and FDI inflows shot up to 10064 thousands in 2003-04 FDI inflows.

In this study the role policy liberalization in explaining the rising inflows of FDI. In FDI, there is the provision of automatic approval for technology agreements related to high priority industries within specified parameters. The restrictive investment regimes have been liberalized. In addition, various types of incentives are being offered to attract FDI. FDI has been permitted in almost all industries. The other liberalization measures include freedom to use foreign trade brands name in the domestic market, which was not allowed earlier.

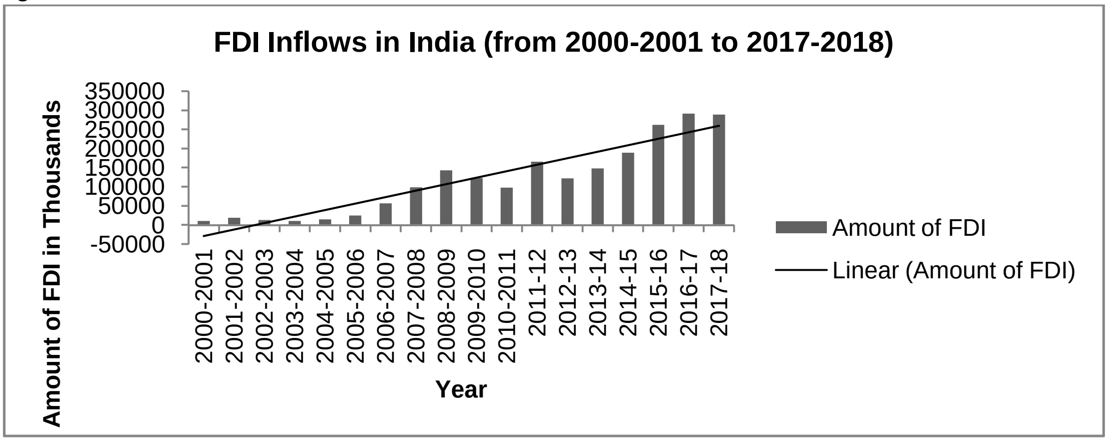
Table: 3 Foreign Direct Investment Inflows In India: (from2000-2001 to 2017-2018)

Sr. No.	Financial Year	Amount of FDI Inflows in Thousands	%age Growth Over Year
1	2000-2001	10733	-
2	2001-2002	18654	65
3	2002-2003	12871	-33
4	2003-2004	10064	-19
5	2004-2005	14653	47
6	2005-2006	24584	72
7	2006-2007	56390	125
8	2007-2008	98642	97
9	2008-2009	142829	28
10	2009-2010	123120	-18
11	2010-2011	97320	-17
12	2011-12	165146	64
13	2012-13	121907	-36
14	2013-14	147518	8
15	2014-15	189107	27
16	2015-16	262322	29
17	2016-17	291696	9
18	2017-18	288889	3
Cumulative total		2076445	

Source: Fact sheet on foreign direct investment by RBI, March 2018

Currently, the hiring of foreign technicians and foreign testing of indigenously developed technologies do not require prior clearance. After 2001-2002, there is decline in FDI inflows, but then there is tremendous increase in inflows till 2006-2007. Since then there is decline. India's global ranking as a destination for FDI fell from 8 to 14. So, many reasons are responsible for this lost such as the lack of reforms and low investor confidence. In India, the setback in attracting FDI was partly due to macroeconomic concerns, such as a high current account deficit and inflation, as well as delays in the approval of several large FDI projects along with the lack of infrastructure, restrictive labor laws, absence of centre–state coordination, a dormant Special Economic Zone policy and a lack of institutional reform.

Figure 3



Source: Fact sheet on foreign direct investment by RBI, March 2018

Cost and time overruns due to contractual and institutional failures are also major obstacles, and are often caused by a lack of coordination among central and state government departments on land acquisition and environmental clearances. The declined trend in global Foreign Direct Investment inflows during the year 2009-10 was mainly attributed to cross border merger and acquisition (M&A) activities and weaker return prospects for foreign affiliates, which adversely impacted equity investment as well as reinvested earnings in the country.

Conclusion

This present study essentially attempts to analyze the recent trends of foreign direct investment inflow into India from 2000-01 to 2017-18. Foreign companies invest in India to take advantage of relatively lower wages, market size, availability of natural resources, skill manpower and special investment privileges such as tax exemptions, relaxation in rules and regulations. It was observed that due to the much restrictiveness of government policies FDI inflows into India remained remarkable low till the 1990s. FDI inflows have been increased after the new economic reforms and now India seems to be quite attractive place for the kind of foreign investment. The actual FDI inflows have steadily increased from 10733 thousands in 2000-01 to 288889 thousands in 2017-18.

India is a land of billion opportunities and not a billion problems .Real changes are being taking place in the scenario of Indian economy and this is really going to leave a great impact in the prospect of India. Hence, the much predicted and awaited glory of Indian economy in 2050 won't just remain as a mere hype but will soon become a reality beckoning the proud Indians**.** India's robust performance in difficult times made it a safe haven that global capital was looking for. India presented an opportunity at this moment that could not be ignored.India can reap the benefits of FDI if immediate steps will be taken to implement policy reforms at both the macro and micro level to send a clear message that India is serious about attracting FDI. In this context, big ticket reforms like FDI in the retail, financial and insurance sectors, and labor laws, will help boost investors' confidence in the Indian economy.

These reforms are all the more important at present as there is capital flight out of the Indian economy because of anxiety over the European sovereign debt crisis. The combination of the crisis in Europe, the down-grading of the US economy, negative growth in Japan owing to the recent natural disasters, and the fact that China is overheating presents an opportunity for India to send the right signals to foreign investors by carrying out all pending reforms. India needs to make a statement that it is a safe haven for investors. It must take control of its macro fundamentals and carry out policy reforms in key areas. A strong political will in this direction is long overdue, and would give a much needed boost to the Indian economy.

India has growth potential and to convert that in reality there has been a continuing and sustained effort to make the FDI policy more liberal and investor-friendly. The Significant rationalization and simplification of the FDI policy has, therefore, been carried out in the recent past year. India has taken number of steps to simplify the FDI regime to make it easily comprehensible to foreign investors. To make the Foreign Direct Investment (FDI) policy more user-friendly, all prior rule and regulations and guidelines have been consolidated into a comprehensive document, which is reviewed every 6th months. FDI flows in India, which had considerably declined in 2010-11, had now bounced back in current fiscal year. The global share of the FDI inflow in India has increased and is able to take the overall economy in a positive direction. In this context, the FDI inflow is very important and should be encouraged significantly in all spheres of the Indian economy.

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