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Foreign Direct Investment in India

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I. Introduction

FDI is one of the most important sources of foreign investment in developing countries. It is seen as a mean of supplement domestic investment for achieving higher level of growth and development.
FDI is permitted under following forms of investment

1. Through financial collaboration/capital/equity participation
2. Through joint ventures and Technical collaborations
3. Through capital market (euro issues)
4. Through Private placement or professional allotment

Capital participation/financial collaboration refers to the foreign Partner's stake in the capital of the receiving country's companies.

Technical collaboration refers to such facilities provided by foreign partner such as licensing trademarks and patents (against which he get lump sum fee or royalty payments for specified period) Technical services etc.

"A FDI is controlling ownership in business enterprises in one country by an entity based in another."

Foreign investment would bring associated advantages of technology transfer, marketing expertise, introduction of modern managerial techniques and new possibilities for promotion of exports. The government will therefore welcome foreign investment which is in the interest of the country's industrial development.

FDI is considered to be the most attractive type of capital flow for emerging economies as it is expected to bring latest technology and enhance production capabilities of the economy. Foreign investments mean both foreign portfolio investments and foreign direct investments (FDI). FDI brings better technology and management, access to marketing networks and offers competition, the latter helping Indian companies improve, quite apart from being good for consumers. This efficiency contribution of FDI is much more important.

Much of the foreign investment can now take advantage of the automatic approval route without seeking prior permission of the Central Government. Caps on FDI shareholding are now applied to only a few sectors, mainly in the services sector. Steps have also been taken to remove the hurdles in the path of foreign investors both at the stage of entry and later in the process of establishing the venture. The policy changes were thus aimed at improving India's record in attracting FDI inflows, which was seen to be below its potential, particularly when compared with the massive inflows reported by other countries. An extensive amount of literature on FDI has emerged regarding its role in not just augmenting domestic savings for investment but more as provider of technologies and managerial skills essential for a developing country to achieve rapid economic development.

Now Government of India allowed FDI (Foreign Direct Investment) in different sectors of economy. FDI includes mergers and acquisitions, building new facilities reinvesting profits earned from overseas operations and intra company loans. FDI is in dissimilarities to portfolio investment which is a passive investment in the securities of another country such as stocks and bonds. FDI is defined as the net inflows of investment to acquire a lasting management interest in an enterprise operating in an economy other than that of the investor. As per the data, the sectors that attracted higher inflows were services, telecommunication, construction activities and computer software and hardware. On 14 September 2012, Government of India allowed FDI in aviation up to 49%, in the broadcast sector up to 74%, in multi-brand retail up to 100%, the choice of allowing FDI in Multi-brand retailing up to 51% has been left to each state.

Factors that attracts FDIs in India

1. India has well developed network of banking and financial institution and organized capital market open to foreign institution investors.
2. India has vast potential of young entrepreneurs in private sector. An Indian skills ad competence is used as base for carrying out production activities & export to neighbor country.
3. Political stability
4. India enjoys good occupation among other counties regarding commitment & repayment.
5. Large labour market at cheap rates.

Factors Discourage FDI
1) High rate of taxation
2) Lack of Infrastructure facilities
3) Complicated legal frame work of rules
4) Lack of transparency

Route of FDI
1) **Automatic Route-** It means without prior approval of either of the govt. or RBI in all activities/sector as specified in FDI poly
2) **Government Route-** It means under this route approval of the govt which are considered by foreign investment promotion board department of economic affairs, Ministry of Finance.

II. Review Of Literature

Sharma Reetu and Khurana Nikita (2013) in their study on the sector-wise distribution of FDI inflow to know about which has concerned with the chief share, used a data from 1991-92 to 2011-2012 (post-liberalization period). This paper also discusses the various problems about the foreign direct investment and suggests the some recommendations for the same. In this study found that, Indian economy is mostly based on agriculture. So, there is a most important scope of agriculture services. Therefore, the foreign direct investment in this sector should be encouraged.

Balasubramanyam V.N, Sapsford David (2007): "Does India need a lot more FDI", Economic and Political Weekly compared the levels of FDI inflows in India and China, and found that FDI in India is one tenth of that of china. The paper also concluded that India may not require increased FDI because of the structure and composition of India's manufacturing, service sectors and her endowments of human capital and the country is in a position to unbundle the FDI package effectively and rely on sources other than FDI for its capital requirements.

Agarwal and Khanin (2011) in their the study found that 1% increase in FDI would result in 0.07%increase in GDP of China and 0.02% increase in GDP of India. We also found that China's growth is more affected by FDI, than India's growth.

Kumar and Karthika (2010) found out in their study that Foreign Direct Investment has a major role to play in the economic development of the host country. Most of the countries have been making use of foreign investment and foreign technology to accelerate the pace of their economic growth. FDI ensures a huge amount of domestic capital, production level and employment opportunities in the developing countries, which a major step towards the economic growth of the country.

Dr. JasbirSingh,Ms. SumitaChadha, Dr. Anupama Sharma(2012) " Role of Foreign Direct Investment in India: An Analytical Study" On the basis of study finds that the 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. there is an upward trend in the flows of foreign investment particularly in study period. We should provide the better environment for attracting the foreign investment through direct as well as indirect methods. We should welcome inflow of foreign investment in such way that it should be convenient and favorable for Indian economy and enable us to achieve our cherished goal like rapid economic development, removal of poverty, internal personal disparity in the development and making our Balance of Payment favorable.

III. Objectives And Methodology

The data required for this study were collected from various published sources and the specific objectives are:
- To discusses the trend of foreign direct investment in India.
- To access the sector-wise foreign direct investment in India.
- To suggest some recommendations with reference to this study.

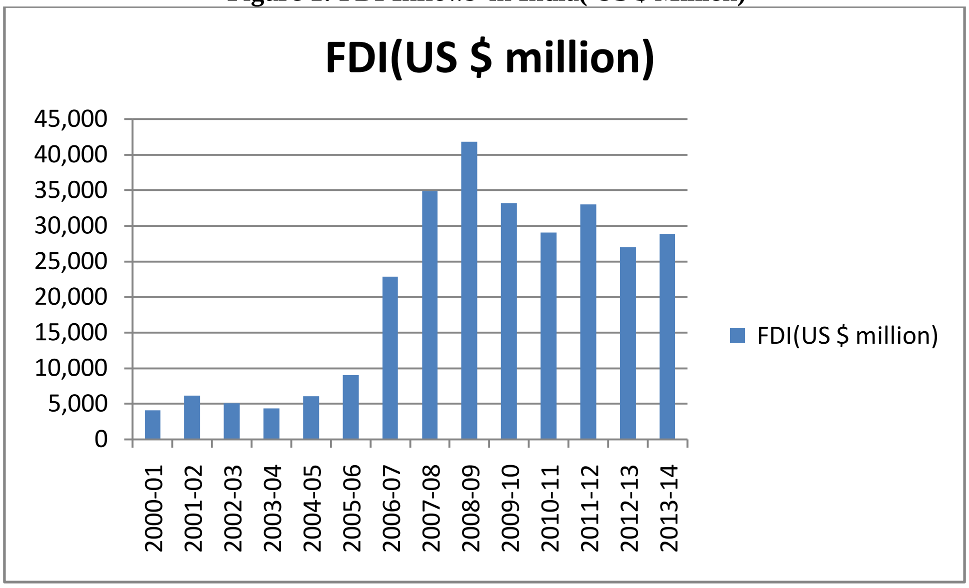
Trends In Foreign Direct Investment In India
1. **Inflows of Foreign Direct Investment:-**Table no 1 and figure no 1 shows the Inflows of FDI inflows in India between the period 2000-2014.

Table no. 1. Foreign Direct Investment inflows in India

Year	FDI(US $ million)
2000-01	4,021
2001-02	6,130
2002-03	5,035
2003-04	4,322
2004-05	6,051
2005-06	8,961
2006-07	22,826
2007-08	34,835
2008-09	41,737
2009-10	33,107
2010-11	29,029
2011-12	32,957
2012-13	26,953
2013-14	28,807

(Source: Handbook of statistics on Indian economy 2012-13; RBI bulletin, April 2014)

Figure 1: FDI Inflows in India(US $ Million)



The above data reflects the foreign direct investment in India. In the year 2000-01total FDI in US $ was 4,021 million. It improved in next yearand there is fluctuation up to 2005-06. In the year 2006-07 the amount goes up. Increasing trend continues in 2007-08 and 2008-09. 2008-09 records the highest amount of FDI inflows during the study period. In the year 2009-10 the amount of FDI decreased due to the global recession. Which is also continues in 2010-11. However the position of FDI improved in 2011-12 but effect of recession was there the impact of which is reduction in the amount. And a little bit better position in 2013-14 from US $ 26,953 to 28,807 Million.

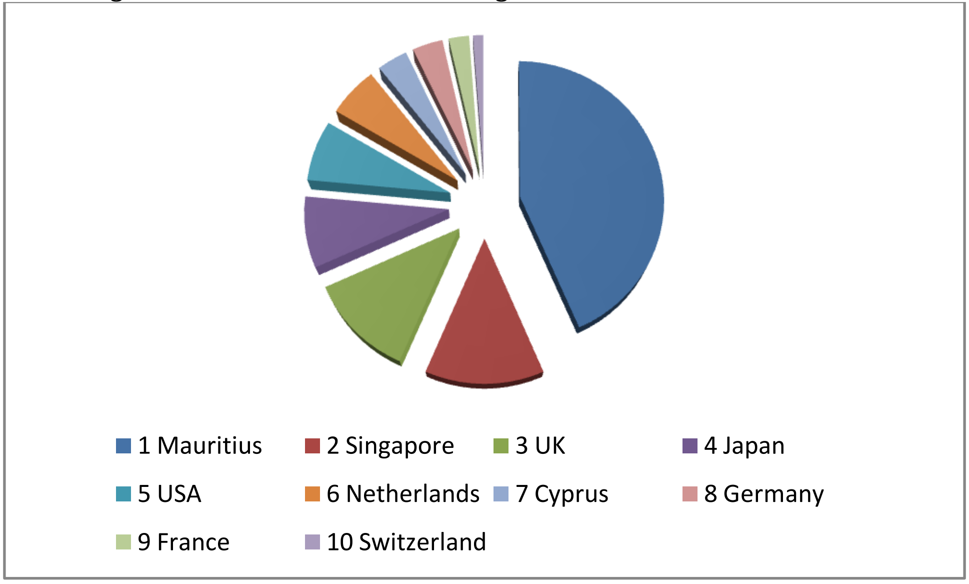
2. **Main Investing Countries in India:-**Table no. 2 and figure no 2 shows the share world's top ten countries in FDI inflows in India.

Table no. 2. Share of different Investing countries in FDI inflows in India

Country	% of Total FDI inflows
1 Mauritius	37
2 Singapore	11
3 UK	10
4 Japan	7
5 USA	6
6 Netherlands	5
7 Cyprus	3
8 Germany	3
9 France	2
10 Switzerland	1

(source: Department of industry and Promotion, Fact Sheet on FDI,April 2014)

Figure 2. Share of different Investing countries in FDI inflows in India



Mauritius is the top country investing in India's FDI with 37% in Total FDI. Singapore is on the second position with 11% contribution in FDI. UK is on third number which is contributing 10% followed by Japan, USA, Netherland, Cyprus, Germany, France and Switzerland. The FDI from Mauritius is maximum because of special tax incentive has given by the government. Some foreign investors first bring their investment in Mauritius and then this investment is made in India to get the tax benefits.

3. **Investment of FDI in Different Sector:-** Table no 3 shows the sector wise distribution of inflows of FDI in India. Our government is attracting FDI mainly in service sector (Financial and Non-financial), computer software and hardware, housing and real estate, automobiles, energy, telecommunication, electronics, transportation, advertising, tea plantation and courier etc.

Table no. 3. Different Sectors FDI in India(April 2000 to 2014)

Sector		**% Share of FDI**
1.	Service Sector	19.2
2.	Construction Ativities	11.42
3.	Telecommunications	6.65
4.	Computer Software and Hardware	6.05
5.	Drugs and Pharmaceuticals	5.34
6.	Automobile Industry	4.59
7.	Chemicals	4.25
8.	Power	4.05
9.	Metallurgical Industry	3.88
10.	Hotel and Tourism	3.43
11.	Petroleum & Natural Gas	2.78
12.	Trading	2.05
13.	Information & Broadcasting (Including Print Media)	1.70
14.	Electrical Equipment	1.65
15.	Cement and Gypsum Product	1.36
16.	Non –Conventional Energy	1.34
17.	Miscellaneous Mechanical & Engineering Industries	1.20
18.	Industrial Machinery	1.19
19.	Consultancy Services	1.18
20.	Construction(Infrastructure) Activities	1.08
21.	Food processing Industry	0.94
22.	Ports	0.85
23.	Agriculture Services	0.83
24.	Hospitals and Diagnostic centres	0.83
25.	Textiles (including dying, printining)	0.63
26.	Electronics	0.62
27.	Sea Transports	0.62
28.	Fermentation Industries	0.59
29.	Rubber Goods	0.59
30.	Mining	0.52

31.	Paper and Pulp	0.45
32.	Prime Mover(other than Elrctronic Generators)	0.44
33.	Education	0.35
34.	Soaps, cosmetics and Toilet preparation	0.33
35.	Machines Tools	0.32
36.	Medical and surgical appliance	0.31
37.	Ceramics	0.26
38.	Air Transport	0.23
39.	Diamond and Gold ornaments	0.20
40.	Glass	0.20
41.	Vegetable oil and Vanaspati	0.20
42.	Fertilizers	0.15
43.	Agricultural Machinery	0.15
44.	Printing Of Books	0.14
45.	Railway related components	0.14
46.	Commercial, Office and Household Equipments	0.13
47.	Earth Moving Machinery	0.09
48.	Leather, Leather goods and Pickers	0.06
49.	Tea, Coffee and Rubber	0.05
50.	Single Brand Retail trading	0.05
51.	Scientific Instruments	0.05
52.	Timber Product	0.04
53.	Photographic Raw Film and paper	0.03
54.	Industrial Instruments	0.03
55.	Boiler and steam generating plants	0.03
56.	Suger	0.03
57.	Coal production	0.01
58.	Dye stuffs	0.01
59.	Glue and Gelatin	0.01
60.	Miscellaneous industry	4.10

(Source: Department of Industry and Promotion, Fact Sheet, April 2014)

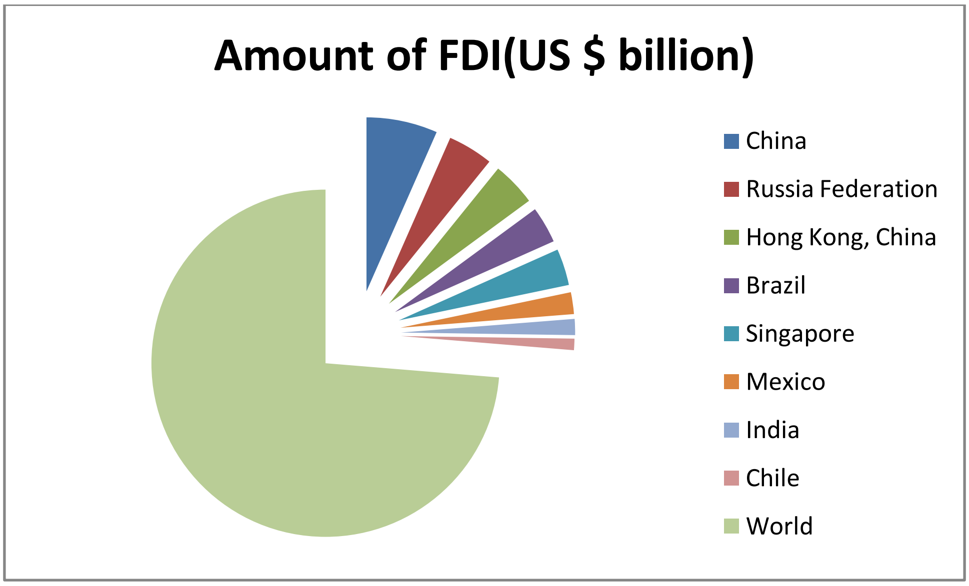
Above data makes it clear that maximum share in total FDI inflows in India is of service sector, Followed by construction activities, telecommunication, computer software and hardware and others. Approximately 60 percent FDI is attracted by first 8 sectors and other cover 40 percent.During this period FDI inflow to sectors namely Petroleum & Natural Gas ,Trading Information & Broadcasting (Including Print Media) , Electrical Equipment ,Cement and Gypsum Products , Non-Conventional Energy , Miscellaneous Mechanical & Engineering Industries , Industrial Machinery ,Consultancy Services and Construction (Infrastructure) accounts for one to three percentage only. While in to the other sectors the FDI inflows were less than one percentage.

4. Comparison of FDI Inflows in India with other Developing Countries

Table no. 4 FDI Inflows in Selected Developing Countries

Country	**Amount of FDI(US $ billion)**	**% Share of FDI in Total World**
China	124	8.9
Russia Federation	79	5.7
Hong Kong, China	77	5.5
Brazil	64	4.62
Singapore	64	4.62
Mexico	38	2.75
India	**28**	2.07
Chile	20	1.44
World	**1384.2**	**100**

(Source:World Development Indicators, 2014)



Above data showsthe share of developing countries. In which China is on the top place in attracting FDI with the amount US $ 8.9 billion. Followed by Russia, Hong Kong, Brazil, Singapore and Mexico. India is on the seventh place among developing countries FDI share with the amount US $ 2.07 billion.

IV. Conclusion

Foreign investment plays a significant role in development of any economy as like India. Many countries provide many incentives for attracting the foreign direct investment (FDI). Need of FDI depends on saving and investment rate in any country. Foreign Direct investment act as a bridge to fulfill the gap between investment and saving. In the process of economic development foreign capital helps to cover the domestic saving constraint and provide access to the superior technology that promote efficiency and productivity of the existing production capacity and generate new production opportunity.The inflow of FDI in service sectors and construction and development sector, from April, 2000 to March, 2014 attained sustained economic growth. These investments met the financial requirement for building up the basic and essential infrastructure industries of priority sector. But we finds that the highest amount of FDI gone to service sector, construction activities, telecommunication and computer hardware and software in study period in India. We should welcome inflow of foreign investment in such way that it should be convenient and favorable for Indian economy and enable us to achieve our cherished goal like rapid economic development, removal of poverty, internal personal disparity in the development and making our Balance of Payment favorable.

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