Foreign Direct Investment in India: In Recent Years

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ABSTRACT

Foreign Direct Investment is a major instrument of attracting International Investment and Capital in any economy. Many developing countries like India are facing the deficit of Savings, Investment and Capital formation which are the basic pillars for Economic growth and development. For economic development, Economic growth is the first phase and for Economic growth, increase in income and production is required. For this purpose a country need more investment and capital formation which can raise the production rate in the country. It can be easily achieved with the help of Foreign Investment. In the present time the major focus of Govt. of India is on increasing the flow and amount of FDI inIndia.For increasing the FDI inflow into Indian economy Govt of India has taken many initiatives ssuch as Make in India. The present study is based on the objectives to analyse the trends of FDI in the recent years in India and its role in Industrial Development. To analyse all these objectives data has been gathered through secondary sources like reports and publication of DIPP, RBI etc. related to FDI. Further this paper discuss that we are becoming able to attract inflow of foreign direct investment which enables us to achieve our cherished goal like making India manufacturing hub, having favourable balance of payment, rapid economic development and removal of poverty by employment generation.

Keywords

Foreign Direct Investment, Economic Development, Capital Formation

INTRODUCTION

Foreign investment plays a significant role in development of any developing and under-developed economy. Many countries provide various incentives and other benefits for attracting the foreign direct investment (FDI). Need of FDI depends on saving rate, investment rate and capital formationin any country. India as a developing country always has been in scarcity of capital for business and economic development. This problem can be solved only by the inflow of foreign direct investment in Indian economy.

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 areinvesting in India to take benefits of relatively lower wages rate, special investment privileges such as tax exemptions, etc.

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.

FOREIGN DIRECT INVESTMENT

FDI stands for Foreign Direct Investment, a component of a country's national financial accounts. Foreign direct investment is investment of foreign assets into domestic structures, equipment, and organizations. The FDI can take any route or form to enter into any nation. The three principal forms of FDI in India are joint ventures, acquisition of assets in a country and Greenfield ventures.

According to the international monetary fund, FDI is defined as

“Investment that is made to acquire lasting interest in an enterprise operating in an economy other than that of investor. The investor’s purpose is being to have an effective voice in the management of enterprise.”

Determinants of FDI in Host Country

I) Host Country Determinants:

1. Policy framework for F.D.I.
2. Economic, political & social stability

3. Rules regarding entry & operations.
4. Standards of treatment of foreign affiliates.
5. Policies on functioning & structure of markets
6. International agreements on FDI
7. Privatization Policy
8. Trade policy (barriers-tariff & non-tariff) and coherence of FDI
9. Tax Policy

II) Principal Economic Determinants in Host Countries

1. Market size & per captaincies
2. Market Structure
3. Market growth
4. Access to regional and global markets
5. Consumer preferences

III) Economic Determinates

1. Raw materials
2. Infrastructure (Ports, roads, power & telecommunication)
3. Low-cost labour
4. Availability of Skilled labour
5. Technological development & innovation

IV) Business Facilitation

1. Investment promotional Incentives
2. Hassle costs (corruption, administrative efficiency)
3. Social amenities (bilingual schools, quality of life etc.)
4. After-investment services

V) Efficiency Seeking

1. Cost of resources and assets adjusted for productivity for labour resources.
2. Other input costs like easy transport & communication economy and cost of other intermediate products
3. Membership of a regional integration agreement conducive to the establishment of regional corporate networks

INFLOW AND PATTERN OF FDI IN INDIA

Pattern of FDI inflow in India (Industry wise)

Only quantity of FDI is not important but it is more important that where this amount is invested. If FDI is coming in heavy industry, Basic capital Goods industry, infrastructure Development, Agriculture Development etc, certainly it will provide desired result and would increase the growth and production of Indian economy. If it will be invested in the more profit making non-priority industries such as luxurious, semi-luxuries industries i.e. Electronics manufacturing there will be increase in the consumption rate only and not in the capital formation in Indian economy. In this context, we would like to analyse the pattern of FDI inflow in the Indian economy. The data pertaining to the above discussion is given in the below table.

During the period 2014-17 highest amount of FDI came into Service sector. Computer services industry got the second place in same period. The third important sector which attracted next highest amount of FDI is Construction industry and Telecom industry held the 4th place and Automobile sector held the 5th place in same period.

Investment through FDI has always been low in Education (0.43%), mine (0.68%), Health and Medical (0.47%). These are the sectors which are always been in need of investment but still not able top attract more FDI. This data shows that most of the FDI has gone to non-priority sector. Because the FDI depends on Profitability, Industrial policy, FERA regulations, Govt. support etc. But in case of India, inflow of FDI is not satisfactory for the point of view of objectives of development of industries and economy.

TABLE-1 SECTORS ATTRACTING HIGHEST FDI INFLOWS

Amount in Rs. Crores (US$ in Million)

Ranks	*Sector*	*2014-15 (April-March)*	*2015-16 (April – March)*	*2016-17 (April – March)*	*Cumulative Inflows (April, 2000-March, 2017)*	*%age to total Inflows (In terms of US$)*
1.	SERVICESSECTOR	27,369 **(4,443)**	45,415 **(6,889)**	58,214 **(8,684)**	316,568 **(59,476)**	**18 %**
2.	COMPUTER SOFTWARE &HARDWARE	14,162 **(2,296)**	38,351 **(5,904)**	24,605 **(3,652)**	136,789 **(24,669)**	**7%**
3.	CONSTRUCTION DEVELOPMENT: (Townships,Housing,Built-Up Infrastructure)	4,652 **(769)**	727 **(113)**	703 **(105)**	114,639 **(24,293)**	**7%**
4.	TELECOMMUNICATIONS (radiopaging,cellularmobile,basic telephone services)	17,372 **(2,895)**	8,637 **(1,324)**	37,435 **(5,564)**	130,164 **(23,946)**	**7%**
5.	AUTOMOBILEINDUSTRY	16,760 **(2,726)**	16,437 **(2,527)**	10,824 **(1,609)**	92,218 **(16,674)**	**5%**
6.	DRUGS&PHARMACEUTICALS	9,052 **(1,498)**	4,975 **(754)**	5,723 **(857)**	75,820 **(14,707)**	**4%**
7.	TRADING	16,755 **(2,728)**	25,244 **(3,845)**	15,721 **(2,338)**	84,557 **(14,211)**	**4%**
8.	CHEMICALS(OTHERTHANFERTILIZERS)	4,658 **(763)**	9,664 **(1,470)**	9,397 **(1,393)**	68,952 **(13,293)**	**4%**
9.	POWER	4,296 **(707)**	5,662 **(869)**	7,473 **(1,113)**	60,087 **(11,589)**	**3%**
10	METALLURGICALINDUSTRIES	2,196 **(359)**	2,982 **(456)**	9,647 **(1,440)**	53,074 **(10,331)**	**3%**

Resource: FDI statistics from DIPP, Govt. of India

Inflow of Foreign Direct Investment in India

The Government of **India** has amended **FDI** policy to increase **FDI inflow**. In 2014, the government increased **foreign investment** upper limit from 26% to 49% in insurance sector. Govt. of India also launched **Make inIndia** initiative in September 2014 under which **FDI** policy for 25 sectors was liberalised further.

TABLE-2 FINANCIALYEAR-WISEFDIINFLOW

S. No.	***Financial Year (April-March)***	***Total FDI Flows***	***%age growth over previous Year (in US$ terms)***
1.	2000-01	4,029	-
2.	2001-02	6,130	**(+) 52 %**
3.	2002-03	5,035	**(-) 18 %**
4.	2003-04	4,322	**(-) 14 %**
5.	2004-05	6,051	**(+) 40 %**
6.	2005-06	8,961	**(+) 48 %**
7.	2006-07	22,826	**(+)155 %**
8.	2007-08	34,843	**(+) 53%**
9.	2008-09	41,873	**(+) 20 %**
10.	2009-10	37,745	**(-) 10 %**
11.	2010-11	34,847	**(-) 08 %**
12.	2011-12	46,556	**(+) 34 %**
13.	2012-13	34,298	**(-) 26%**
14	2013-14	36,046	**(+)5%**
15.	2014-15	45,148	**(+) 25%**
16.	2015-16	55,559	**(+) 23%**
CUMULATIVE TOTAL (from April, 2000 to March, 2016)		424,269	-

Source: ***RBI's Bulletin May, 2017 (Table No. 34– FOREIGN INVESTMENT INFLOWs***

Foreign investments have played a pivotal role in India to supplement the low level of domestic investment. The FDI flows in India took a new turn with announcement of Make in India and other FDI schemes. Under this schemes, the FDI has been allowed in priority sectors for the development of industries which has increased the FDI inflow. This table depicts that flows of FDI in India has increased rapidly in last three financial years. There was a negative rate of growth in year 2012-13 which means FDI inflow was lower than the previous year. But in the year 2013-14 FDI has again a positive growth rate which is getting higher year by year.

TABLE-3 SHARE OF TOP INVESTING COUNTRIES FDI INFLOWS *(Financial years)*

Amount Rupees in Crores (US$ in Million)

Ranks	*COUNTRY NAME*	*2014-15 (April – March)*	*2015-16 (April – March)*	*2016-17 (April –March)*	*Cumulative Inflows (April,00-March,17)*	*%age tototal Inflows (US $)*
1.	**MAURITIUS**	55,172 **(9,030)**	54,706 **(8,355)**	105,587 **(15,728)**	585,950 **(111,638)**	**34%**
2.	**SINGAPORE**	41,350 **(6,742)**	89,510 **(13,692)**	58,376 **(8,711)**	315,042 **(54,590)**	**16 %**
3.	**JAPAN**	12,752 **(2,084)**	17,275 **(2,614)**	31,588 **(4,709)**	142,260 **(25,675)**	**8%**
4.	**U.K.**	8,769 **(1,447)**	5,938 **(898)**	9,953 **(1,483)**	125,545 **(24,591)**	**7%**
5.	**NETHERLANDS**	20,960 **(3,436)**	17,275 **(2,643)**	22,633 **(3,367)**	117,167 **(20,682)**	**6%**
6.	**U.S.A.**	11,150 **(1,824)**	27,695 **(4,192)**	15,957 **(2,379)**	110,532 **(20,323)**	**6%**
7.	**GERMANY**	6,904 **(1,125)**	6,361 **(986)**	7,175 **(1,069)**	52,045 **(9,698)**	**3%**
8.	**CYPRUS**	3,634 **(598)**	3,317 **(508)**	4,050 **(604)**	46,731 **(9,156)**	**3%**
9	**FRANCE**	3,881 **(635)**	3,937 **(598)**	4,112 **(614)**	30,637 **(5,725)**	**2%**
10.	**UAE**	**2,251 (367)**	6,528 **(985)**	4,539 **(675)**	26,187 **(4,705)**	**1%**
TOTALFDIINFLOWSFRO MALLCOUNTRIES*		**189,107 (30,931)**	**262,322 (40,001)**	**291,696 (43,478)**	1,787,555 **(332,112)**	-

Source:- FDI statistics from DIPP, Govt. of India

This table shows that highest amount of FDI in India came from Mauritius. Mauritius had secured first place with 34% in the above said period. While Singapore, Japan, U.K and Netherlands have secured second 16 %, third 8%, fourth 7%, and fifth place with 6% respectively. U.S.A, Germany and France are also investing in Indian economy.

It shows that developed countries are seeking profit making opportunities in Indian economy and they are making huge investment in Indian market.

GOVERNMENT INITIATIVES IN RECENT YEARS

The Government of India hadlaunched Make in India initiatives with the objective of transforming India into a global design and manufacturing hub. For this purpose GOIproviding some other incentives which will bring rapid increase in FDI flow in India:

- The Govt. of India approved 100% FDI in other financial services carried out by non-banking finance companies (NBFCs)
- Six industrial corridors are being developed across various regions of the country. Industrial Cities will also come up along these corridors.
- DIPP has set up a special management team to facilitate and fast track investment proposals from Japan, the team known as 'Japan Plus' has been operationalized w.e.f. October 2014. Similarly 'Korea Plus', launched in June 2016, facilitates fast track investment proposals from South Korea and

offers holistic support to Korean companies wishing to enter the Indian market.

- The National Highways Authority of India (NHAI) plans to offer a risk cover to foreign investors who are willing to invest in government owned operational national highways, which would cover risk associated with the possibility of structural design fault, sub-standard quality of construction, and loss of traffic.

- The Union Cabinet has approved a scheme allowing the grant of Permanent Residency Status (PRS) to foreign investors based on a minimum investment of Rs 10 crore (US$ 1.5 million) within 18 months or Rs 25 crore (US$ 3.6 million) within 36 months, which is expected to encourage foreign investment and facilitate Make in India programme.

- The Department of Industrial Policy and Promotion (DIPP) has allowed 100 per cent foreign direct investment (FDI) in asset reconstruction companies (ARC) under automatic route, which will help to tackle the issue of declining asset quality of banks.

- The Government of India has amended the FDI policy regarding Construction Development Sector. The amended policy includes easing of area restriction norms, reduction of minimum capitalisation and easy exit from project. Further, in order to provide boost to low cost affordable housing, it has indicated that conditions of area restriction and minimum capitalisation will not apply to cases committing 30 per cent of the project cost towards affordable housing.

- The Government of Karnataka has approved three investment proposals worth Rs 2,211 crore (US$ 321.7 million), which includes that of PepsiCo and Biocon for setting up their new production facilities in the state, and one expansion project proposal of Manyata Promoters Private Limited.

- The government has also raised FDI cap in insurance from 26 per cent to 49 per cent through a notification issued by the DIPP. The limit is composite in nature as it includes foreign investment in the form of foreign portfolio investment, foreign institutional investment, qualified foreign investment, foreign venture capital investment, and non-resident investment.

- India's cabinet cleared a proposal which allows 100 per cent FDI in railway infrastructure, excluding operations. Though the initiative does not allow foreign firms to operate trains, it allows them to invest in areas such as creating the network and supplying trains for bullet trains etc.

RECENT INVESTMENTS & DEVELOPMENTS

Some of the recent significant FDI announcements are as follows:

- BSH Home Appliances Group, one of the leading home appliances manufacturers worldwide, opened its first technology centre in India at Adugodi, Bengaluru, which will enable the company to further develop localised technologies for the Indian market.

- Ford Motor Co. plans to invest Rs 1,300 crore (US$ 189.2 million) to build a global technology and business centre in Chennai, which will be designed as a hub for product development, mobility solutions and business services for India and other markets.

- JW Marriott plans to have 175-200 hotels in India over the next four years.

- China based LCD and touchscreen panel manufacturer, Holitech Technology, plans to invest up to US$ 1 billion in India next year, as per the company's CEO MrBingshuang Chen.

- Mr Abdul Lahir Hassan, Chairman of UAE-based Gamma Group, outlined plans of investing around Rs 3,000 crore (US$ 436.5 million) in the infrastructure, health and education sectors of Kerala, which is expected to generate around 2,000 indirect and direct jobs in the state.

- MrStephaneDescarpentries, Director of operations FM Logistic Asia, outlined plans of investing around EUR 50 million (US$ 52.9 million) in India in the next four years, to contribute to a better efficiency of logistics market in the country.

- The first Incredible India Tourism Investment Summit 2016, which was organised from September 21-23, 2016, witnessed signing of 86 Memoranda of Understanding (MoUs) worth around Rs 15,000 crore (US$ 2.18 billion), for the development of tourism and hospitality projects.

- Apple Inc has started its first development centre outside the US in Hyderabad, which will employ over 4,000 people and focus on Apple Maps, the company's digital maps and navigation service.

- Panasonic Corporation plans to set up a new manufacturing plant for refrigerators in India with an investment of Rs 250 crore (US$ 36.4 million), and also invest around Rs 20 crore (US$ 3 million) on an assembly unit for lithium ion batteries at its existing facility in Jhajjar in the next 8-10 months.

- Vistra Group Ltd, a Hong Kong-based professional services provider, has acquired IL&FS Trust Company Ltd, India's largest independent corporate trust services provider, which will enable Vistra to expand the platform to provide a broader suite of corporate and fiduciary services and thereby gain a foothold in the Indian corporate services market.

- Silver Spring Capital Management, a Hong Kong-based equity hedge fund, plans to invest over 2,000 crore (US$ 291.0 million) in Hyderabad-based infrastructure developer Transstroy India Ltd, for construction of highways in the country.

- Global beverage company Pepsi plans to invest Rs 500 crore (US$ 72.8 million) to set up another unit in Maharashtra to make mango, pomegranate and orange-based citrus juices, while biotechnology giant Monsanto plans to set up a seed plant in Buldhana district of Maharashtra.

EASE OF DOING BUSINESS (EODB) INDEX

The Ease of Doing Business (EODB) index is a ranking system established by the **World Bank Group**. In the EODB index, 'higher rankings' (a lower numerical value) indicate better, usually simpler, regulations for businesses and stronger protections of property rights.

The research presents data for 189 economies and aggregates information from 10 areas of business regulation:

- Starting a Business
- Dealing with Construction Permits
- Getting Electricity
- Registering Property
- Getting Credit
- Protecting Minority Investors
- Paying Taxes
- Trading across Borders
- Enforcing Contracts
- Resolving Insolvency

Rankings and weightages on each of the above mentioned parameters are used to develop an overall EODB ranking. A high EODB ranking means the regulatory environment is more conducive for starting and operating of businesses.

TABLE -4 India's Ranking - Ease of Doing Business Index

YEAR	2015	2016	2017
India's EODB Ranking	134	131	130

Among the chosen 189 countries for this index, India was ranked 134 in 2015 on the World Bank's Doing Business index. Since then there has been a remarkable improvement.

Since 2014, the Government of India launched an ambitious program of regulatory reform aimed at making it easier to do business in India. The program represents a great efforts to create a more business-friendly environment.

Positive changes have led to this impressive improvement in India's ranking on the EODB index:

- **Starting a Business:** India's ranking on this parameter has improved from 164 in 2015 to 155 in 2016. This improvement has been mainly on account of decrease in number of procedures and time taken to start a business in India.

- **Getting Electricity:** India's ranking on this parameter has improved from 99 in 2015 to 70 in 2016. The number of days taken to get a permanent electricity connection for a business is just 53 days, which is lesser than the average time taken in South East Asian and OECD member countries.

Apart from the above-mentioned parameters, India fairs particularly well in terms of **'Protecting interests of**

Minority Investors', where it ranks 8 among the 189 countries which are part of this index.

CONCLUSION

As per the World Investment Report 2016 by the United Nations Conference for Trade and Development (UNCTAD) India continues to be among the top ten countries in terms of foreign direct investment (FDI) inflows globally and the fourth in developing Asia. India acquired 10th slot in the top 10 countries attracting highest FDI inflows globally in 2015.

India jumped three places to rank number 8by AT Kearney Foreign Direct Investment (FDI) Confidence Index in the year 2017 in comparison of number 11 in the year 2015.

In experts view, "There is a growing belief among global business leaders that India is finally embarking on a growth path that will see it unlock its full potential,"

According to Department of Industrial Policy and Promotion (DIPP), the total FDI investments India received during April - September 2016 rose 30 per cent year-on-year to US$ 21.6 billion, indicating that government's effort to improve ease of doing business and relaxation in FDI norms is yielding results. It also indicates that the Impact investments in India is expected to grow at a compound annual growth rate (CAGR) of 20-24 per cent to touch US$ 6-8 billion by 2025, from US$ 1 billion in 2015. India's growth rate, along with competitive location in terms of wages and policies like Stand Up India, is expected to boost FDI in the coming future.

Today, India's credibility is stronger than ever. There is visible momentum, energy and optimism. Make in India is opening investment doors. The world's largest democracy is well on its way to becoming the world's most powerful economy.

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