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Foreign Direct Investment Policy, Trends and Its Impact on Indian Economy

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ABSTRACT

Foreign Direct Investment (FDI) refers to an investment that allows an investor to have a significant voice in the management of an enterprise operating outside the investor's own country. It is considered important instruments in the process of economic Growth and developing in globalizing world. FDI & FPI both provide additional source of capital, latest technology to the host county & create employment opportunity. Domestic Market becomes more competitive with the entry of FDI. Developing countries like India needs substantial flow of FDI to achieve the required investment to accelerate the economic growth and development. Since liberalization, 'when Foreign Direct Investment & Foreign Portfolio Investment were allowed to enter India', our economy has grown by manifolds. The focus of study is to investigate the impact of FDI on Indian Economy, to know the trends of FDI & FPI in India, Highlights country and sector wise flow of FDI in India.

Keywords: - FDI, FPI, Economic Growth.

INTRODUCTION

There are many economic variables which bring the ups and down in the growth of an economy. Foreign Direct Investment is considered an important instrument in the process of economic growth and development of county. FDI inflows are critical for sustaining a high growth rate. It is the process where the residents of one country acquire ownership of assets for the purpose of controlling the production, distribution and other activities of a firm in another country. Foreign Direct Investment plays a significant role in the economic development as indicated below:

- FDI provides additional sources of capital and expanding countries production and transferring crucial technology to the host country.
- FDI Promotes trade and exports.
- FDI helps in generating employment opportunities
- FDI helps in improving the international allocation of capital, particularly if the return on capital is higher in host country than in the source country. For this reason Government of India is adopting to promote FDI inflows since 1991 and become one of the most attractive destinations for Foreign Direct Investment. Since liberalization, when FDI and FPI allowed entering, our economy has grown by manifolds.

REVIEW OF LITERATURE

Agarwal and Khan conducted the study on " Impact of FDI on GDP: A Comparative study of China and India", 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 found out in their study on "sartorial performance through inflows of FDI" that FDI has a major role 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 place of their economic growth. FDI ensure a huge amount of domestic capital, production level and employment opportunities in the developing countries.

Balasubramanyam and Saps ford stated in their article "Does India need a lot more FDI" compared the level of FDI inflows in India and china and found that FDI in India is one tenth of that of China.

OBJECTIVE OF THE STUDY

The Objective of the study is:-

- TO investigate the trends of foreign Investment in India since 2000
- To show the impact of FDI on Indian economy.
- To highlight current major policies of India about foreign direct investment and to discuss FDI in India country wise and sector wise.

METHODOLOGY

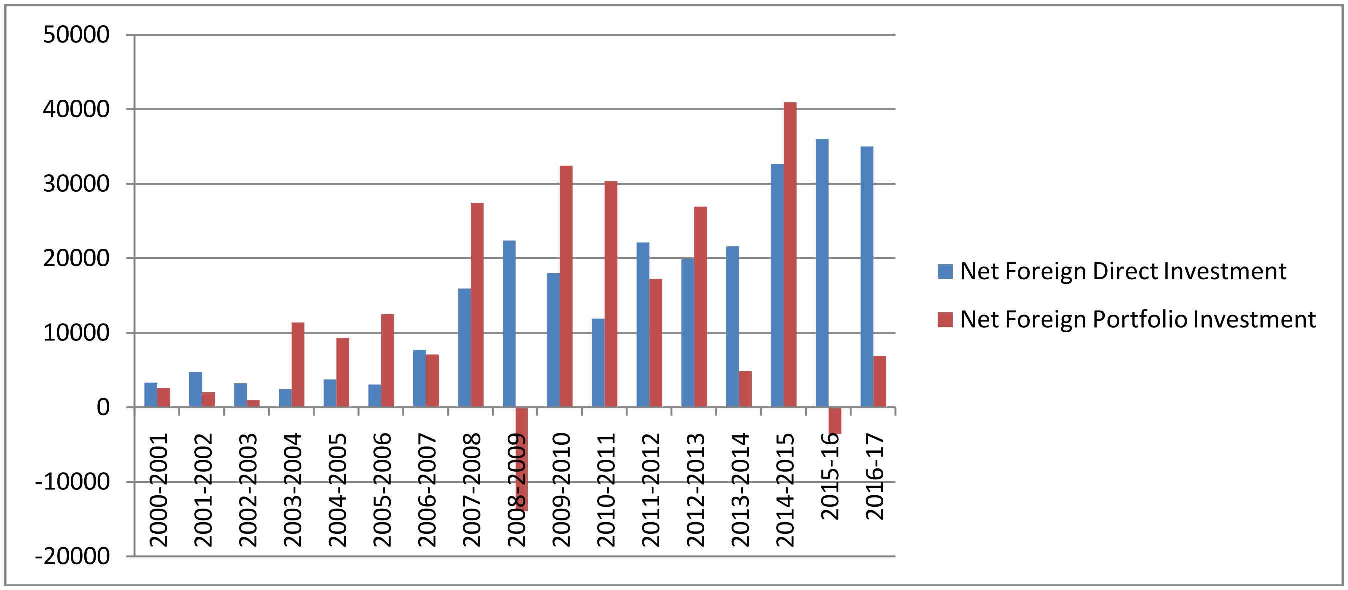
Data have been collected through secondary sources like publications, reports of Government & Books.

Trends & Progress of FDI in INDIA

Growth pattern of FDI inflows in India can be ascertained from the table 1 and graph, which depicts the trends of FDI and FPI from 2001-02 to 2016-17.

Table 1: Trends of FDI & FPI in India

Year	Net Foreign Direct Investment	Net Foreign Portfolio Investment	Net Foreign Investment Inflows
2000-2001	3272	2590	5862
2001-2002	4734	1952	6686
2002-2003	3217	944	4161
2003-2004	2388	11356	13744
2004-2005	3713	9287	13000
2005-2006	3034	12494	15528
2006-2007	7693	7060	14753
2007-2008	15893	27433	43326
2008-2009	22372	-14030	8342
2009-2010	17966	32396	50362
2010-2011	11834	30293	42127
2011-2012	22061	17170	39231
2012-2013	19819	26891	46710
2013-2014	21564	4822	26386
2014-2015	32627	40934	73561
2015-16	35958	-3637	32322
2016-17	34981	6913	41894



Progress in Foreign Direct Investment and Foreign Portfolio Investment can be depict from above table and graph. In 2000-01 Net FDI inflows are $ 3272 million & FPI inflows are 2590. A massive change occurs in 2003-04 which leads to increase in total foreign investment inflow up to $ 13744 million in which share of FPI was higher than FDIFDI raised from $ 3034 million in 2005-06 to $ 7693 million in 2006-07. This reflects the continued strength of sustained economic activities and positive investment climate. The strength of corporate performance, positive sentiments further liberalization of foreign direct investment policies in sector such as telecom, retail and expanding promotional efforts by the government also played a major role in attracting FDI. Portfolio investment also increases due to massive increase in investment by foreign institutional investment. However because of recession in America, Foreign Institutional Investor's withdrew a large amount of resources from India in 2008-09 which leads to decrease in total foreign investment inflow to $ 8342. But in 2009-10 FDI showed a robust growth of Indian economy and foreign investment inflow became $ 50362 million. Again it fells down in 2011-12 up to $ 39231 due to fall in FPI inflows. It increase in 2014-15 in a huge amount by $ 73561 million from $ 26386 million in 2013-14 due to the liberal and new policy framework of Modi's government. Due to fall in FPI inflows Foreign Investment inflows again decreases up to $ 41894 million in 2016-17.

COUNTRY WISE FDI EQUITY INFLOWS IN INDIA

Table 2: Share of top investing Countries to FDI Equity inflows

In US $ Million

Rank	Country	April 2016 to March 2017	% age of Total Inflows
1	Mauritius	15728	34
2	Singapore	8711	16
3	Japan	4709	8
4	U.K.	1483	7
5	U.S.A.	2379	6
6	Netherland	3367	6
7	Germany	1069	3
8	Cyprus	604	3
9	France	614	2
10	UAE	675	1

FDI Statics from Department of Policy & Promotion

Table 2 depicts that Mauritius have major share in FDI inflows in India. The reason is double tax avoidance agreement

(DTAA) with India. It means that any foreign investor has the option of paying tax either in India or in Mauritius. Since the tax rates prevailing in Mauritius are amongst the lowest in the world, many multinational corporations prefer to route their investments to India through Mauritius. Singapore has second rank as an investor in India having 16 percent of total FDI inflows. USA is the fifth major trading partner and largest source of FDI after Mauritius, Singapore, Japan and U.K.

Sectors Attracting Highest FDI Equity Inflows in India

It would be interesting to see in which sectors foreign investors show comparatively greater interest. Maximum inflows of FDI have been in service sector accounting 17.92 percent in total FDI inflows followed by computer software and hardware industry (7.43). Share of top 10 sectors in FDI equity inflows in India is depicts by table 3 & graph

Table 3 Share of Top Sector wise FDI equity inflows in India (April 2016 to March 2017)

Sr. no.	Sector	Percentage
1	Service Sector	17.92
2	Computer software & hardware	7.43
3	Construction Development	7.32
4	Telecommunication	7.21
5	Automobile Industry	5.02
6	Drugs & Pharmaceuticals	4.43
7	Trading	4.28
8	Chemicals Other than Fertilizer	4.00
9	Power	3.49
10	Mettallurgical Industry	3.11

Impact of FDI in Economic Development of India

FDI plays an important role in the development process of a country. Developing countries like India needs substantial foreign inflows to achieve the required investment to accelerate economic growth and development. Impact of FDI on Indian economy growth can be better understood by the following points:-

POSITIVE IMPACT OF FDI IN INDIA

- Investment provides the base and prerequisite for the economic growth and development. A part’s from domestic capital FDI provide sufficient funds for investment.
- FDI provides a win-win situation to the host and home country.
- With the introduction of FDI in the country, market competition increases to a considerable level and local companies plus MNCs starts working to deliver their best.
- It is good for the localities to save their money and time to upgrade infrastructure. Companies with FDI will give everything installed. Localities just need to serve them
- FDI is considered best for the companies containing a huge amount of foreign exchange reserves.
- FDI shakes the monopolistic nature of local companies. This is beneficial for the customers and for the sellers as well.
- With the increasing of market competition, vendor will become more active and provide their best services without any fraud.
- Localities professional skills are enhanced when they work with foreign investors.
- Local employee’s productivity gets improved.
- Developing country gets an additional benefit of working with a developed nation's company
- Organizations from developed countries pay tax to the local government and buy or sell raw material for designing finished product and services.
- Best option for developing countries to present their country in a different way.
- FDI is good investment trick especially for the organization making an investment in employing local employees. Their salaries are cost effective and output quality is comparatively higher.

Negative Impact of FDI in India

- Exploitation of workers
- Good to bad shift
- The main purpose of introducing FDI in country is to drain money from the local residents.
- Net profit is transferred to the already developed nation so FDI is nothing but giving foreign companies a chance to flourish and expand their base in our country.
- Small business owners suffer a lot due to the introduction of FDI to their country.
- Local companies find it difficult to exist.

Foreign Direct Investment is a kind of blessing for countries that are looking for integrating latest technology to earn profits. It can only be permitted ifs negative impact on the country is ignored and more focus is laid on positive impact that it does in the country.

What Make India Attractive For FDI?

- Market Size
- Rationalization by economic policies by the Indian government.
- Improvement in domestic financial institutions and banks.
- Good manufacturing and outstanding hub.

RECENT FDI POLICIES IN INDIA

Since liberalization, government of India is attempting to boost FDI in India and changes its policies time to time in the context of FDI and is trying to create healthy environment for FDI.

Latest changes in FDI norms in India have made entry and control of foreign investors in a lot of sectors easier. Defense and civil aviation has been opened to 100 percent. FDI under the government approval route (the FDI limit was 49 percent in airlines before). Many other sectors have been allowed 100 percent FDI with government approval or through the automatic approval route. These include animal husbandry, trading of food products produced in India, private security services and broadcasting carriage services (such as DTH, cable network, mobile TV etc.). Up to 74 percent (against the previous 49 percent) in brown field pharmaceutical industry products will no longer require government approval. Brown field airport too have been brought under automatic approval route. The condition of access to state of the art technology in India has been removed in defense. In addition for single brand retail trading companies undertaking business with state of the art technology, the restriction of sourcing up to a certain percentage of inputs locally has been totally relaxed for three years, followed by a partial relaxation for another five years.

The stated objective of 100 percent FDI and other relaxations is to promote employment and improve infrastructure, along with greater FDI inflows and the ease of doing business in India. With all this India is now the most open economy in the world for foreign direct investment.

CONCLUSION

An analysis of the trends in FDI in India from 2001 to 2017 shows that India has generally attracted higher FDI inflows, especially in service sector with its robust economic growth and the contribution of Mauritius and Singapore in FDI inflows is highest. The trends show some up and down in FDI in India due to the changes in macroeconomic & political environment. The study shows that there is a significant impact of FDI in stimulating growth rate of developing countries like India which have shortage of technology and trained entrepreneurs. FDI is considered as the life blood for the developing countries. For Indian economy which has tremendous potential, FDI had a positive impact. FDI inflows supplements domestic capital, as well as technology and skills of existing companies. It also helps to establish new companies. All of these contribute to economic growth of the Indian economy.

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