International Journal of Enhanced Research in Management & Computer Applications
ISSN: 2319-7471, Vol. 6 Issue 5, May-2017, Impact Factor: 1.544

Foreign Direct Investment and India- Role and Trends Policies

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ABSTRACT

Foreign Direct Investment 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 an important instrument in the process of economic growth and developing in globalizing world. It provides additional sources of capital, latest technology to the host country and create many opportunities for employment. The domestic market becomes more competitive with the entry of FDI's which leads to an increase in the productivity level of the country. Developing countries like India need substantial flow of FDI to achieve the required investment to accelerate economic growth and development. India is one of the most attractive destinations for foreign direct investment. India provide high returns on FDI than many countries of the world. Since liberalization when Foreign Direct Investment and Foreign Portfolio Investment were allowed to enter India, our country has grown by manifolds. Recently a number of changes were approved on the FDI policy to remove the cap in most of the sectors. The present study is based on the objectives like-to Investigate the impact of FDI on Indian economy, to know the trends of FDI and FPI in India, highlights country wise and sector wise FDI in India and its major policies.

Keywords:- Foreign Direct Investment, FPI, GDP, 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 in a globalising world. FDI inflows are critical for sustaining a high growth rate. It is the process where the residents of one country acquires ownership of assets for the purpose of controlling the production distribution and other activities of a firm in another country. Foreign Dired investment plays a significant role in the economic development by –

- Providing additional sources of capital and expanding countries production, transferring crucial technology to the host country.
- Promoting trade and exports, especially in more open host countries.
- Generating employment opportunities and training skilled workers.
- Improving the international allocation of capital, particularly if the return on capital is higher in the host country than in the source country for this reason government of India have been adopting different steps of promote FDI inflows since 1991 and become one of the most attractive destinations for foreign investment. Since liberalisation, when FDI and FII allowed to enter, our country has grown by manifolds. Recently a number of changes were approved on the FDI policy to remove the cap in most of the sectors today India provide high return on FDI.

Objectives of the Study

The present study is based on objectives like –

- To investigate the trends of foreign investment in India since 2000.
- To discuss the role of foreign investment in the growth of Indian economy.
- To highlight current major policies of India about foreign direct investment and to discuss FDI in India countrywise and sectorwise.

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METHODOLOGY OF THE STUDY

To analyse this study data have been collected through secondary sources like publications and reports of government and RBI relating to foreign direct investment. The data are taken from various journals also.

Trends and Progress of FDI in India

The growth pattern of foreign investment in India can be ascertained from the table 1, which depicts the trend of Foreign Direct Investment and Foreign Portfolio Investment from 2001-02 to 2014-15.

Table 1: Trend of FDI and FPI in India

US$ million

Year	Net Foreign Direct Investment	Net Portfolio Investment	Total A + B
2000-01	3272	2590	5862
2001-02	4734	1952	6686
2002-03	3217	944	4161
2003-04	2388	11356	13744
2004-05	3713	9287	13000
2005-06	3034	12494	15528
2006-07	7693	7060	14753
2007-08	15893	27433	43326
2008-09	22372	-14030	8342
2009-10	17966	32396	50362
2010-11	11834	30293	42127
2011-12	22061	17170	39231
2012-13	19819	26891	46711
2013-14	21564	4822	26386
2014-15	32627	40934	73561

Source : RBI bulletin (2016) Foreign Investment flow Retrieved from http://www.rbi.org.in/

Table 1 depicts the trends in Net Foreign Investment flows in India and it is clear from the table that FDI of India was $ 3272 million in 2001-02. The year 2003-04 registered massive foreign investment flows of $ 13744 million of which the share of portfolio investment was as high as $ 11356 million according to RBI, this reflected investors inflows rose further. A distinct change occured in 2006-07 with the share of FDI surpassing the share of portfolio investment. FDI raised from $ 3034 million in 2005-06 to $ 7693 million in 2006-07. This reflected the continued strength of sustained economic activities and positive investment climate. The strength of corporate performance, positive investor sentiments further liberlisation of foreign direct investment policies in sector such as telecom, retail and expanding promotional efforts by the government also played a greater role in attracting FDI. Portfolio investment also rise due to massive increase in investment by Foreign Institutional Investment. However because of recession in America, Foreign Institutional investors withdrew a large amount of resources from India in 2008-09 and as a result FPI of India reduced and became $ 14030 million in 2008-09. But in 2009-10 FDI showed a robest growth of Indian economy and Foreign Investment flows became $ 50362 million. FDI fell in 2011-12 because of a decline in fII's inflows. Total investment increased in 2012-13 and showed some improvement in FDI trends. It increased 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.

COUNTRY WISE FDI EQUITY INFLOWS IN INDIA

Country wise FDI equity inflows in India is shown in table-2.

Table 2: Share of top investing Countries FDI Equity inflows (April-2016-Sep-16)

In US $ million

Ranks	Country	April 2016 to Sep. 16	% age of total inflows
1	Mauritius	5850	33
2	Singapore	4680	16
3	U.K.	964	8

4	Japan	2795	8
5	U.S.A	1437	6
6	Netherlands	1615	6
7	Germany	588	3
8	Cyprus	381	3
9	France	183	2
10	UAE	355	1

Source : Report of ministry of Commerce and industry (2016)

Table 2 depicts that Mauritius have major share in FDI inflows in India. The reason is double tax avoidance agreement (DTAA) with India. The agreement 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, UK and Japan.

Sector Attracting Highest FDI Equity Inflows

It would be interesting to see in which sectors foreign investors show comparatively greater interest. The maximum inflows of FDI has been in Service sector accounting 18.08 percent in total FDI inflows, followed by Construction activities (7 percent), Computer Software and Hardware (7.11 percent), Telecommunication (6.83 percent), Automobile industry (5.09 percent), Drugs and pharmaceuticals (4.67 percent), Trading (4.31 percent), chemicals (other than fertilizers) having 4.31 percent, Power (3.56 percent), Hotel and Tourism (3.14 percent) and Metallurgical Industry (3.01 percent). The top ten sectorwise curative inflows FDI in India have been shown in Table 3 given below.

Table 3: Sector wise FDI equity inflows in India (From April 2016-Sep-2016)

In percentage

Ser. No.	**Sector**	**Percentage**
1	Service Sector	18.08
2	Construction Development	7.82
3	Computer software & Hardware	7.11
4	Telecommunications	6.83
5	Automobile Industry	5.09
6	Drugs & Pharmaceuticals	4.67
7	Trading	4.31
8	Chemicals other than Fertilizer	4.01
9	Power	3.56
10	Hotel & Tourism	3.14

Source : Report of ministry of Commerce and Industry (2016).

ROLE OF FDI IN ECONOMIC DEVELOPMENT OF INDIA

FDI plays on important role in the development process of a Country Developing Countries like India need substantial foreign inflows to achieve the required investment to accelerate economic growth and development. Developing Countries like India seek FDI because –

- Domestic Capital is insufficient for the purpose of economic growth.
- Foreign Direct Investment usually brings it with other scare productive factors like technical know-how, business expertise and knowledge.
- It helps in accelerating government revenue which can help a lot in the development of Indian economy.
- It plays an important role in generating employment opportunities by providing job.
- The biggest advantage of FDI is that it will increase the saving of Indian people as they will get good quality products at cheaper rates.
- It enlarge the size of market by introducing a number of companies and goods and services and help in accelerating the income of the country & further increase the standard of living of people in host Country.
- FDI affects the economic growth by stimulating domestic investment, increasing human Capital formulating and by facilitating the technology transfer in the host country.

What make India attractive for FDI

- Market Size – Consumer market of up to 300 million people – India has the largest middle class population in the world, which posses great potential for companies to market.
- Rationalization by economic policies by Indian government.
- Improvement in domestic financial institutions and banks help a lot in attractive FDI.
- Good manufacturing and outstanding Hub – India business than other Countries, with the huge labour availability and its access to markets in Asia, it becomes very attractive for foreign Companies to set up shoe in the country.

RECENT FDI POLICIES IN INDIA

Since liberalisation, government of India is attempting to boost Foreign Direct Investment in India & changes it's policies time to time in context of FDI & is trying to create healthy environment for FDI.

The latest changes in foreign direct investment (FDI) norms in India have made entry and control of foreign investors in a lot of sectors easier. Defence and civil aviation have 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 and mobile T.V.). Up to 74 percent (against the previous 49 percent) in brown field Pharmaceutical industry protects will no longer require government approval. Brown field airport too have been brought under the automatic approval route. The condition of access to state-of-the art technology in India has been removed in defence. 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 5 years – a favour granted apparently on Apple's appeal.

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 2001-15 shows that India has generally attracted higher FDI inflows, especially in service sector with its robest economic growth and the Contribution of Mauritius and Singapore in FDI inflows is highest. The trends show some ups and down in FDI in India due to the changes in India's macroeconomic environment. The study shows that there is a significant role by FDI in stimulating growth rate of developing countries like India which have shortage of technology, trained entrepreneurs. FDI is considered the life blood for the developing countries and developing countries like India need substantial foreign investment to achieve the required investment to accelerate economic growth and development.

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