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Foreign Direct Investment in India: A Brief Study

Abstract

Investment provides the base for economic growth and Development. Every country wants foreign exchange for foreign trade and FDI as the safest type of international capital flows out of all the available sources. FDI as a strategic component of investment is needed by India for achieving economic growth. FDI increased in India when the liberalization policy comes in behavior in 1991 and there is a sharp rise in investment flows from last decades and continue rising because the new policy has broadened. In this paper we study the foreign direct investment with respect to India since 1991. The study depends on secondary data.

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Introduction

A foreign direct investment is a controlling ownership in a business enterprise in one country by an intity based in another country. Broadly foreign direct investment includes “mergers and acquisitions, building new facilities, reinvestment profit earned from overseas operation and intra company loans”. In a narrow sense, foreign direct investment refers just to building new facilities. FDI differ substantially from indirect investment such as portfolio flows, where in overseas institutions invest in equities listed on a nation’s stock exchange.

India has already marked its presence as one of the fastest growing economies of the world. It has been ranked among the top 3 attractive destinations for inbound investment. Since 1991, the regulatory environment in terms of foreign direct investment has been consistently eased to make investor friendly. In India 100% FDI allowed in medical devices, FDI cap increased in insurance and activities from 26% to 49%,100% FDI allowed in the telecom sector, 100% FDI in single brand retail, removal of restriction in tea plantation sector, FDI limit raised to 74% in credit information and 100% in asset reconstruction companies, FDI limit of 26% in defense sector raised to 49% under government approval route, construction, operation and maintenance of specified activities of railway sector opened to 100% FDI under automatic route, according to recent policy measures. FDI is prohibited in some sectors as lottery business, gambling, chit funds, nidhi-company, real estate business, manufacturing of cigars, cigarettes of tobacco, services like legal, book keeping, accounting and auditing.

Foreign Direct Investment in India

Indian economy may receive FDI under the two routes as automatic route and government route. In automatic route FDI is allowed without prior approval either of the government or the Reserve Bank of India in all activities/sectors as specified in the consolidated FDI policy. In government route FDI requires prior approval of the government which are considered by the foreign investment promotion board (FIPB), department of economic affairs, Ministry of finance.

With opening up of the Indian economy in 1991, FDI policy as part of broader process of economic reforms underwent a significant change. Foreign investment was allowed in a phased manner in most of the sectors and restrictive condition were waived or relaxed. The Foreign investment promotion board (FIPB) was set up as the nodal, single window agency for all matters relating to FDI. The Secretariat for industrial assistance (SIA), ministry of commerce and industry, provides a single window service for entrepreneurial assistance, investor facilitation, receiving and processing all applications, assisting entrepreneurs and investors in setting up projects and in monitoring the implementation of projects.

Systematic View of FDI Policy

1990-1991

In 1991 automatic approval of upto 51% of foreign ownership was introduced in 34 priority sectors, including mostly manufacturing industries and a few services secto`

1991-1992

Indian mining sector was opened to foreign direct investment.

1993-1994

Permission was granted to foreign investors and Non-residents Indian (NRI) investors to repatriate their profits and capital.

1997-1998

1. Non-resident Indians (NRI) and overseas corporate bodies (OCB) were gives automatic approval for equity in priority industries.
2. In January 1997 FDI policy in mining was further liberalized.
3. In January 1998 simplified procedures for automatic FDI approvals were announced by Reserve Bank of India.

1998-1999

FEMA replaced FERA revealing change in government attitude towards FDI.

1999-2000

Foreign investment implementation authority (FIIA) was set up for providing a single point interface between foreign investors and the government machinery, including state authorities.

2000-2001

The dividend balancing condition on consumer goods was finally abolished.

2005-2006

In March 2005, the government announced revised FDI policy, an important element of which was the decision to allow FDI up to 100% foreign equity ownership.

2009-2010

1. FDI norms in various sectors such as commodity exchanges, credit information's and aircraft maintenance were released.
2. 100% FDI permitted in mining of titanium bearing minerals.

Top Sector Attracting Highest FDI in India **(Amount in ` Crore)**

Sectors	1991-1999	2000-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
Services sector	40443.82	1184053	15053	22771	26306	13294	17637
Computer soft & hardware	0	472744.15	3551	3312	2656	6896	12594
Tele-communication	40376.82	467377.15	7542	8984	1654	7987	17110
Housing & Real Estate	0	420517.27	5600	2750			
Construction activities	0	398019	4979	10857	7248	7508	4559
Automobiles Services	0	263024.82	5864	2916	8384	9027	14855
Power	36433.77	258793.34	5796	7262	2923	6519	3932
Metallurgical Industries	6333.77	179598.95	5023	7700	7878	3436	2776
Petroleum and Natural gas	0	135859.10	2543	951			
Chemical other than fertilizer	39861.28	129259.10			1596	4738	3614

Fact Sheet on FDI

(From April 2000 to Feb-2015)

Cumulative FDI flows into India (2000-2015)

1	Cumulative amount of FDI inflows (equity inflows + re-invested earnings + other capital		Us $ 364,785 Million
2	Cumulative amount of FDI equity inflows (excluding amount remitted through RBI+NRI schemes	` 1219783 Crore	246,395 Million

FDI inflows During Financial Year 2014-15

(From April 2014 to Feb. 2015)

1	Total FDI inflows into India (equity inflows + re-invested earning + other capital		Us $ 41223 Million
2	FDI equity inflows	` 175886 Crore	Us $ 28813 Million

FDI equity Inflows During the Financial Year (2014-15) (Months Wise)

	Financial Year 2014-2015	Amount of FDI inflows In ` Crore	In US $ Million
1	April 2014	10290	1705
2	May 2014	21373	3604
3	June 2014	11508	1927
4	July 2014	21022	3500
5	Aug. 2014	7783	1278
6	Sept. 2014	16297	2678
7	Oct. 2014	16288	2655
8	Nov. 2014	9486	1537
9	Dec. 2014	13562	2161
10	Jan. 2015	27880	4481
11	Feb. 2015	20397	3288
	April 2014 to Feb.2015	175886	28813

Statement on Country Wise FDI Equity Inflows
From April 2000 to Feb. 2015

Sr. No.	Name of the Country	Amount of FDI Inflows	
		In ` Crore	In US $ Million
1	Mauritius	422015.00	86971.78
2	Singapore	165199.78	31874.31
3	U.K.	108347.75	22001.08
4	Japan	91150.84	17992.79
5	Netherland	76374.25	14529.60
6	U.S.A	66090.49	13624.67
7	Cyprus	39325.17	8037.91
8	Germany	38090.67	7576.53
9	France	22332.27	4472.08
10	Switzerland	15188.37	3040.37
11	U.A.E	15040.73	3032.10
12	Spain	10493.95	2045.92
13	Italy	7737.02	1577.98
14	South Korea	7710.45	1541.60
15	Hong Kong	7823.32	1534.23
16	Luxemburg	6723.52	1207.56
17	Sweden	5242.17	1088.04
18	Caymen Islands	4711.45	1033.80
19	Russia	5483.18	1007.94
20	China	5203.97	887.80
21	British Verginia	3855.85	836.94
22	Belgium	4178.76	802.44
23	Malaysia	3822.84	732.77
24	Australia	3173.82	694.75
25	Indonesia	2898.41	622.51
26	Poland	3300.34	619.52
27	Canada	2540.17	522.21
28	The Bermudas	2252.20	502.07
29	Denmark	1978.78	400.31
30	Oman	1727.56	369.17
31	Ireland	1744.25	330.00
32	Finland	1608.04	323.57
33	South Africa	15334.88	289.62
34	Austria	1244.41	345.10
35	Thailand	1605.97	201.04

FDI in Indian Economy:-

India's foreign reserves touched a record US $ 322 billion, surpassing the previous high of almost US$ 321 billion in 2011. Latest data released shows an accretion of US $2.7billion during the week ended January 16, 2015 essentially due to a rise in foreign currency assests. The government has announced that foreign investors can put it as much as ` 90300 Crore in India's rail infrastructure through the FDI route. According to a list of Projects released by the Ministry of Railways.

FDI in Retail

In November 2011, India's Central Government announced retail reforms for both multi-brand stores and single brand stores.

In January 2012, India approved reforms for single-brand stores welcoming anyone in the world to innovate in Indian retail market with 100% ownership. On 14 September 2012, the government of India announced the opening of FDI in multi-brand retail, subject to approvals by individual states. On 7 December 2012, the Federal Government of India allowed 51% FDI in multi-brand retail in India.

FDI in Retail (Positive and Negative Arguments)

Positive Arguments

1. Because of foreign Companies, job opportunities in areas like markeing, agro-processing, packaging, transportation etc. will be created. According to the government, 10 million new jobs will be created.
2. Farmers will get a good price for their crop and their exploitation will stop.
3. Foreign Exchange around $100 million in India.
4. Foreign companies will also create a supply chain in the Indian market.

Negative Arguments

1. FDI will lead to job losses small retailers and other small 'Kirana Store owners' will suffer a large lose.
2. Supermarkets will establish monopoly in the Indian market.
3. Jobs in the manufacturing will be lost because foreign giants will purchase their goods from the international market and not from domestic sources.

I. In India we have 11 shops per 1000 people.
II. India has 1.2 Crore shops, which give employment to about a 4 Crore people will suffer?

Today, where the American President is requesting their citizens to buy goods from small retailers, we are inviting them to our country.

Conclusion

Foreign direct investment is playing good role in Indian Economy. Indian economy growing and growing after foreign trade investment policy has been liberalized. The result of FDI has been encouraging. India is consistently ranked among the top global investment destination by all international bodies. FDI has a positive impact. FDI inflow supplements domestic capital as well as technology and skills of existing companies. India's foreign trade has become strong due to FDI. FDI has generates employment and income also which is more important for our economy. India has become a promising investment destination for foreign companies looking to do business here. Mr. Narender Modi Prime Minister of India has launched the 'Make in India' initiative with the aim to give the Indian economy global recognition. Based on the recommendation of the foreign investment Promotion Board, the Government of India has approved 14 Proposals of FDI amounting to ` 152838 Crore approximately. Perhaps the future of Indian economy will be bright.

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