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An Analytical study on Foreign Direct Investment in India

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Abstract:

In the era of modernization no country can fulfill its all needs independently. Every country has to depend on the other countries for fulfill the need of the people. Global integration plays a very crucial role in the economic development of each country. The only tool of tempting the global integration in economy is foreign direct investment. It makes a link between saving and investment. The problems of deficiency of saving are suffering by most of the developing countries, which can be improved by foreign direct investment. FDI is an important tool to reduce the deficit in balance of payment. Foreign capital also helps to cover the constraint of domestic saving and give opportunity to the better technology in the process of economic development. It also helps to encourage efficiency, effectiveness and productivity of the current production capacity and create new production opportunity. In the present paper researcher has made an attempt to (i) to analyze the trend of foreign direct investment in India. (ii) To study the inflow of FDI in India in some selected sector. (iii) To study the constraints of FDI in India.

Keywords: foreign direct investment, trends.

Introduction:

Foreign direct investment (FDI) has become increasingly important in the developing world, During the past two decades, with a growing number of developing countries succeeding in attracting substantial and rising amounts of inward FDI. A typical characteristic of these developing and underdeveloped economies is the fact that these economies do not have the needed level of savings and income in order to meet the required level of investment needed to sustain the growth of the economy. In such cases, foreign direct investment plays an important role of bridging the gap between the available resources or funds and the required resources or funds. It plays an important role in the long-term development of a country not only as a source of capital but also for enhancing competitiveness of the domestic economy through transfer of technology, strengthening infrastructure, raising productivity and generating new employment opportunities. In India, FDI is considered as a developmental tool, which helps in achieving self-reliance in various sectors and in overall development of the economy. In India FDI inflow made its entry during the year 1991-92 with the aim to bring together the intended investment and the actual savings of the country. To pursue a growth of around 7 percent in the Gross Domestic Product of India, the net capital flows should increase by at least 28 to 30 percent on the whole. But the savings of the country stood only at 24 percent. The gap formed between intended investment and the actual savings of the country was lifted up by portfolio investments by Foreign Institutional Investors, loans by foreign banks and other places, and foreign direct investments. Among these three forms of financial assistance, India prefers as well as possesses the maximum amount of Foreign Direct Investments. Hence FDI is considered as a developmental tool for growth and development of the country. Therefore, this study is undertaken to analyze the flow of FDI into the country identifying the various set of factors which determine the flow of FDI.

Review of literature:

Kumar and Karthika found out in their study on "Sectoral Performance through Inflows of Foreign Direct Investment (FDI)", 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 place 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.

Balasubramanyam and Sapsford stated in their article "Does India need a lot more FDI" 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

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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.

Objectives of the study:

- To analyze the trend of foreign direct investment in India.
- To study the inflow of FDI in India in some selected sector.
- To study the constraints of FDI in India.

Analysis and interpretation:

TABLE 1

Trend of FDI in India from 2000 to 2017:

Sr.nos	Financial year (April-march)	Amount of FDI inflows		
		In Rs Crores	In US$ Million	
1	2000-2001	10,733	2,453	(+) 65 %
2	2001-2002	18,654	4,065	(-) 33 %
3	2002-2003	12,871	2,705	(-) 19 %
4	2003-2004	10,064	2,188	(+) 47 %
5	2004-2005	10,653	3,219	(+) 72 %
6	2005-2006	24,584	5,540	(+)125 %
7	2006-2007	56,390	12,492	(+) 97 %
8	2007-2008	98,642	24,575	(+) 28 %
9	2008-2009	142,829	31,396	(-) 18 %
10	2009-2010	123,120	25,864	(-) 17 %
11	2010-2011	97,320	21,383	(+) 64 %
12	2011-2012	165,146	35,121	(-) 36 %
13	2012-2013	121,907	22,423	(+) 8%
14	2013-2014	147,518	24,299	(+) 27%
15	2014-2015	189,107	30,931	(+) 29%
16	2015-2016	262,322	40,001	(+) 9%
17	2016-2017	291,696	43,478	
CUMULATIVE TOTAL (from April, 2000 to March, 2017)		1,787,555	332,112	

Note*:* ***(i) including amount remitted through RBI's-NRI Schemes (2000-2002).***

(ii) FEDAI (Foreign Exchange Dealers Association of India) conversion rate from rupees to US dollar applied, on the basis of monthly average rate provided by RBI (DEPR), Mumbai.

 # Figures for the years 2014-15 to 2016-17 are provisional subject to reconciliation with RBI.

^ Inflows for the month of March, 2012 are as reported by RBI, consequent to the adjustment made in the figures of March, '11, August, '11 and October, '11.

The above table shows that the total flow of FDI in India during 2000 to 2017 is 1,787,555 crore or 332,112 US million dollars. The highest FDI inflows in the country is in the year 2016-2017 i.e. 2,91,296 in Rs Crore and 43,478 in US $ mn. Comparing the previous year it has been increased by 9%.

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TABLE 2. Sector wise inflow of FDI in India:

STATEMENT ON SECTOR-WISE FDI EQUITY INFLOWS FROM 2000 TO 2017

Sector	Amount of FDI Inflows (In Rs crore)	(In US$ million)	%age of Total Inflows
Services Sector*	316,567.77	59,476.49	17.92
Automobile Industry	92,218.42	16,673.91	5.02
Trading	84,557.43	14,210.86	4.28
Chemicals (Other Than Fertilizers)	68,951.96	13,293.09	4.00
Petroleum & Natural Gas	33,856.56	6,856.16	2.07
Cement And Gypsum Products	29,039.29	5,239.22	1.58
Soaps, Cosmetics & Toilet Preparations	6,706.70	1,203.92	0.36
Air Transport (Including Air Freight)	5,744.85	1,014.45	0.31
Retail Trading	6,301.44	988.56	0.30
Agricultural Machinery	9,791.34	1,920.74	0.58
Commercial, Office & Household Equipments	1,811.42	353.47	0.11
Scientific Instruments	1,517.83	254.93	0.08
Sugar	1,218.17	204.44	0.06
Boilers And Steam Generating Plants	1,184.39	195.15	0.06
Leather,Leather Goods And Pickers	898.52	167.21	0.05
Timber Products	907.25	157.69	0.05
Glue And Gelatin	818.21	128.39	0.04
Dye-Stuffs	510.44	88.40	0.03
Industrial Instruments	369.18	76.14	0.02
Photographic Raw Film And Paper	273.76	67.29	0.02

Note:

(i) ****Services sector includes Financial, Banking, Insurance, Non-Financial / Business, Outsourcing, R&D, Courier, Tech. Testing Analysis***

(ii) ***FDI inflows data re-classified, as per segregation of data from April 2000 onwards.***

(iii) ***Percentage of inflows worked out in terms of US$ & the above amount of inflows received through FIPB/SIA route RBI's automatic route & acquisition of existing shares only.***

(iv) ***FDI Sectoral data has been revalidated / reconciled in line with the RBI, which reflects minor changes in the FDI figures (increase/decrease) as compared to the earlier published sectoral data.***

3. Constraints of FDI In India:

India, the largest democratic country with the second largest population in the world, with rule of law and a highly educated English speaking work force, the country is considered as a safe haven for foreign investors. Yet, India seems to be suffering from a host of self-imposed restrictions and problems regarding opening its markets completely too global investors by implementing full scale economic reforms. Some of the major impediments for India's poor performance in the area of FDI are: political instability, poor infrastructure, confusing tax and tariff policies, Draconian labour laws, well entrenched corruption and governmental regulations.

1. Lack of adequate infrastructure: It is cited as a major hurdle for FDI inflows into India. This bottleneck in the form of poor infrastructure discourages foreign investors in investing in India. India's age old and biggest infrastructure problem is the supply of electricity. Power cuts are considered as a common problem and many industries are forced to close their business.

2. Stringent labor laws: Large firms in India are not allowed to retrench or layoff any workers, or close down the unit without the permission of the state government. These laws protect the workers and thwart legitimate attempts to restructure business. To retrench unnecessary workers, firms require approval from both employees and state governments-approval that is rarely given. Further, Trade Unions extort huge sums from companies through over-generous voluntary retirement schemes.

3. Corruption: Corruption is found in nearly every public service, from defense to distribution of subsidized food to the poor people, to the generation and transmission of electric power. The combination of legal hurdles, lack of institutional reforms, bureaucratic decision-making and the allegations of corruption at the top have turned foreign investors away from India.

4. Lack of decision making authority with the state governments: The reform process of liberalizing the economy is concentrated mainly in the Centre and the State Governments are not given much power. In most key infrastructure areas, the central government remains in control. Brazil, China, and Russia are examples where regional governments take the lead in pushing reforms and prompting further actions by the central government.

5. Limited scale of export processing zones: India's export processing zones have lacked dynamism because of several reasons, such as their relatively limited scale; the Government's general ambivalence about attracting FDI; the unclear and changing incentive packages attached to the zones; and the power of the central government in the regulation of the zones. India which established its first Export Processing Zone (EPZ) in 1965 has failed to develop the zones when compared to China which took initiative for establishment only in 1980.

Conclusion:

FDI in India has a significant role in the economic growth and development of India. FDI in India to various sectors can attain sustained economic growth and development through creation of jobs, expansion of existing manufacturing industries. The inflow of FDI in service sectors and construction and development sector, from April, 2000 to June, 2015 attained substantial sustained economic growth and development through creation of jobs in India. Computer, Software & Hardware and Drugs & Pharmaceuticals sector were the other sectors to which attention was shown by Foreign Direct Investors (FDI). The other sectors in Indian economy the Foreign Direct Investors interest was, in fact has been quite poor.

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