FOREIGN DIRECT INVESTMENT: INDIAN EXPERIENCE

Radhika K G[1], Vaishali K[2]

[1]Faculty, Department of Commerce, Mangalore University, Karnataka, India
[2]Faculty, Department of Commerce, Mangalore University, Karnataka, India

ABSTRACT

An economic growth of any country is decided by the volume of investment it makes. Investments are made on the basis of domestic savings and borrowing capacity. After New Economic Policy with globalization, Foreign Direct Investment gained momentum. In the recent years, Foreign Direct Investment (FDI) plays an important role in development of an economy. It is a major source of non-debt financial resource for the economic development. The tremendous growth of global FDI around the world makes the development of both the developed and developing nations. The home and host countries are interested in taking advantages of FDI like market openness, technological advancement, managerial skills and increase in foreign exchange. In India, FDI has increased financial stability and growth in GDP. FDI as a component of investment helps India for achieving the economic reforms. In recent years, the impact of FDI inflows into India is highly significant. The impact of globalization has made India to open its country's market to foreign investments. Thus, trade barriers were removed and Indian industry had a tremendous growth in all sectors. As a result, India has improved in technology and international trade. India after liberalization and globalization of the economy in 1991, there was a massive increase in the flow of Foreign Direct Investment. The recent trends of digitization and robotization have helped in the increased inflow of foreign funds to India. In 2014, 'Make in India' campaign initiated in India to transform the nation into a manufacturing hub for global players. The study focuses on to analyze the progress of foreign direct investment in the Indian economy.

KEYWORDS: Foreign Direct Investment, Globalization, Indian Economy

---

INTRODUCTION

An economic growth and development of any country is decided by the volume of investment it makes. Investments are made on the basis of domestic savings and borrowing capacity. After New Economic Policy 1991, Foreign Direct Investment gained its momentum. In the recent years, Foreign Direct Investment (FDI) plays an important role in development of an economy. Traditionally, FDI was directed towards the development of natural resources and manufacturing enterprises. Foreign direct investment share of developing countries had been growing steadily until 1997 and reached a peak of around 40.0 percent. During 1990, FDI flows to Emerging Market Economies (EMEs) owing largely to the adoption of macroeconomic and structural reforms by a number of these countries and the strengthening of their growth prospectus. A number of EMEs in Latin America and Eastern Europe including Argentina, Brazil, Mexico, and the Czech Republic undertook extensive privatization of state-owned assets which turned to mergers and acquisitions **(Vyas, 2019)**.

In India, Foreign direct investment (FDI) has increased financial stability, growth and positive growth rate in GDP. The new industrial revolution, driven by frontier technologies, robotization and digital advancements have made investments and production across the world better. This has offered vast opportunities for economic growth and sustainable development. World Economy has seen a rapid rise in Foreign Direct Investment (FDI) for more than three and half decades. The significant contributions of globalization in the past is the growing and spreading FDI amongst the countries, contributing significantly to positive effects on the labor productivity of domestic firms

(Singhet.al, 2012). FDI acts as a supplement to insufficient domestic capital. FDI finances both ownership change and capital formation and also helps in there placement of the huge volumes of outdated capital accumulated during the central planning for transition economies **(Miteshi and Stefanova, 2017)**. By attracting FDI inflows with favorable policies has therefore become a key battleground in the transition and emerging markets **(Singh**, **2009).**
FDI helps the economies by bringing new growth opportunities and massive profits in various sectors of the economies like technical and managerial knowhow, skill up gradation, better and improved infrastructure, employment opportunities, increased competitiveness and opportunity for local markets to expand globally. FDI may have both positive and negative effects on the host economies and it is important to look at their Sectoral decomposition and type as that can significantly impact the future growth and performance of the economy. The decline in global FDI by 23.0 percent that is $1.43 trillion, with this decline the FDI to developing economies remained stable at $671 billion in 2017. Asia was the largest recipient of FDI in the World with a total of $476 billion inflows in 2017**(World Investment Report, 2018).** FDI has been a major driver of economic growth in India. It is also a major source of non-debt financial resource for the development of the country. Since the New Economic Policy of 1991, foreign investments have been flowing into the economy. Due to liberalization in Indian economy, foreign companies are eager to invest in India in order to take advantage of lower wages, tax exemptions etc. This has generated employment and helped the economy in upgrading to higher and better technology. A favorable investor friendly policy regime has ensured regular and smoother flow of foreign capital into the country **(Gori, 2015).**

OBJECTIVES

Main purpose of this paper is to analyze the FDI inflow trend to India. The specific objectives are;

1. To assess the Foreign Direct Investment policy of India.
2. To analyze the trend of Foreign Direct Investment progress in India.
3. To examine the factors influencing Foreign Direct Investment and their impact on the economy.

RESEARCH METHODOLOGY

The paper is descriptive and analytical. Descriptive in the sense, the relationship between the Inflows of FDI and their impact on Indian Economy are described. The paper is analytical because the second part deals with data analysis of FDI inflow and outflow of India after NEP 1991.

FDI POLICY IN INDIA

Foreign Direct Investment (FDI) is a process where one country directly invests their funds in another country to exercise control over the investment in terms of production, management, distribution, effective decision making, and employment. From the last few decades in India, significant changes in FDI policies along with developmental changes in industrial policy and foreign exchange position of the country. In 1980, the liberalization began with significant changes in approaches and policies related to FDI in India along with developmental changes in industrial policy and foreign exchange position of the country. There was a sizeable reduction in tariffs and many import items were shifted to Open General License (OGL) category. In 1990, the economy was under a critical phase and needed macro-economic stabilization and structural adjustment, FDI emerged as the most preferred route for mobilization of financial resources. Hence FDI up to 51.0 percent equity in specified industries was permitted under the automatic approval route by the Reserve Bank of India (RBI). The new foreign investment policy FIPB (Foreign Investment Promotion Board) was constituted by Government of India. Its main function was to facilitate foreign investment through single window system. India also became the member of MIGA (Multilateral Investment Guarantee Agency) for protection of foreign investments. Since 1991 a lot of work has been done in this direction to make the environment investor friendly in the country **(Sharma and Khurana, 2013).** Table 1 gives an overview of the features of FDI policy followed over the years in India thus making FDI as a huge source of external financing in the country.

Table 1: Phases of FDI Policy in India

Phase I 1950-67	Phase II 1967 -1980	Phase III 1980-1990	Phase IV 1990-Onwards	Phase V 2014 Onwards
Receptive Attitude	Restrictions	Pro-business approach: gradual liberalization	Open door policy	Open door policy and promotion of selective sectors of National interest
Non discriminatory treatment to FDI No restrictions on remittances Indians having ownership and control	Restrictions on FDI without Technology. More than 40.0 percent not allowed. FDI controlled by FERA foreign exchange regulation act)	Export oriented units allowed higher FDI Liberalization in the procedure of remittance and royalty in technical fees. Faster channels for FDI clearance created	Liberalized policy framework for foreign trade, foreign exchange and technical collaborations. Core and infrastructure sectors: FDI was welcomed FERA replaced with FEMA (Foreign Exchange management act). FDI was encouraged through mergers and acquisitions in services and financial sector, non-banking financial companies and insurance, etc	Promoting FDI selectively in several sectors. Focus on FDI for job creation and domestic manufacturing. FDI in manufacturing through automatic route. Manufacturers allowed selling through retail including e commerce platforms. Rising for FDI in the insurance sector from 26.0 percent to 49.0 percent. Civil aviation rose from 74.0 percent to 100.0 percent. Overseas investment up to 49.0 percent in the insurance and pension sectors under the automatic route. 100.0 percent FDI in asset reconstruction companies through the automatic route. Construction development eligible for 100.0 percent FDI under the automatic route. Limit for investment by foreign portfolio investors (FPIs) in central public sector enterprises, other than banks, listed in stock exchanges raised from 24.0 percent to 49.0 percent.

***Source**:* 1. Uma Kapila (2015-16), Indian Economy Performance and policies, Academic Foundation .2 Department of Industrial Policy and Promotion, Ministry of Commerce and Industry, Government of India 3. RBI Bulletins

In the trend of globalization, FDI acts as the bridge between saving and investment of resources and thus, plays one of the most essential roles in the growth of both developed countries as well as developing countries.FDI helps in saving the domestic constraint and brings in the technology required for the venture from foreign. The policy by the government has led to benefit of the consumers by introducing more efficient, technologically driven and innovative products in the market. Moreover, the income of a nation is affected as it produces employment opportunities and introduces new skills which aim to extend the new markets which are developed during the process. Such a policy plays a crucial role in developed countries where it helps in focusing on the new markets which have the potential of high profits, copious labor, and scope for products. However, in India the liberalization of the policies is required to increase the flow of investment from other countries which have bountiful amount of capital resources.

RECENT MEASURES BY THE GOVERNMENT FOR FDI INFLOWS

In 2016, the government of India made some changes to the FDI policy. The measures taken by the Government are directed to open new sectors for Foreign Direct Investment, increase the sectoral limit of existing sectors and simplifying other conditions of the FDI policy. Some new changes in various sectors for attracting the FDI are as follow:

- To attract the investment in the broadcasting carriage services like Teleports, Direct to Home, Cable Networks, Mobile TV etc., the government has permitted 100.0 percent FDI through automatic route.
- In Private Security Agencies, FDI limit was raised to 74.0 percent from 49.0 percent. FDI beyond 49.0 and up to 74.0 percent permitted through Government approval route. Presently, FDI up to 49.0 has been allowed under automatic route in this sector.
- Under the new FDI policy, 74.0 FDI under automatic route has allowed in the Brownfield pharmaceuticals. FDI beyond 74.0 will be allowed through government approval route.
- The changes in the policy include allowing 100.0 percent FDI for trading in E-commerce, in respect of food products manufactured produced in India under automatic route.
- Foreign investment of 49.0 percent has been allowed to access modern technology.FDI limit for defence sector made applicable to Manufacturing of Small Arms and Ammunitions under Arms Act 1959.
- FDI on airport up to 100.0 percent has been allowed in Greenfield Projects and 74.0 percent FDI in Brownfield Projects under automatic route. Presently, 100.0 percent FDI under automatic route has been permitted in Brownfield Airport projects **(Goel, 2016).**

In 2021, there was increase in foreign direct investment (FDI) in the insurance sector from 49.0 percent to 74.0 percent. In 2021, 44 Indian companies including public sector units received approvals related to FDI for joint production of defense items with foreign organizations. During 2018-2019, the World Bank has referenced that premium in India are predicted to make by 8.8 percent to be more than private utilization progression of 7.4 percent, and in this manner drive the improvement in India's Gross Domestic Product **(Vethirajan et.al, 2019)**. The Central Government's Scheme for Promotion of Manufacturing Electronic Components and Semiconductors (SPECS), Samsung received financial incentive of Rs. 460 crore (US$62.61 million). This project will develop a global export hub in Uttar Pradesh and helps to attract more Foreign Direct Investments (FDI). In 2020, changes in the guidelines for the provision of services approved by the Union Cabinet enabling 100.0 percent FDI in the broadcasting services market **(Muneeswaran and Vethirajan, 2022).**

TRENDS OF FDI FLOW IN INDIA

In today’s globalized world, there was exponential growth of FDI in both developed and developing countries. In the last two decades, the FDI flows are increasing faster than other indicators of economic activity worldwide. Developing countries considered FDI as the safest type of external finance as it not only supplement domestic savings, foreign reserves but promotes growth even more through spillovers of technology, skills, increased innovative capacity and domestic competition. FDI has become an instrument of international economic integration.

Over the past decades, the major change was governments have become more favorable towards FDI and have liberalized FDI regime at different times, speeds and depths in different countries and regions. Investment policies have become more liberal at the national and regional level, but there is no comprehensive framework at the multilateral level. Some countries are increasingly facilitating FDI into developing countries using guarantee funds, matchmaking and other measures.

The capital flows from developed countries to developing countries. Presently, world economy cannot develop successfully without foreign investment. Foreign investment is a vital factor in influencing the global economic development. Infrastructure development has benefitted from these enormous changes with various sectors including telecommunications, ports and roads, an increase in the number of projects being initiated through the involvement of foreign investors.

India is the 7th largest, and the 2nd most populated country in the world. India has long been known for the diversity of its culture, for the inclusiveness of its people and for the convergence of geography. India emerges as a viable partner to global industry. Recently, investment opportunities in India are at a peak. The changing trend of Foreign Direct Investment is exhibited in the table-2.

Table 2: Foreign Direct Investment (Rs. In crore)

Year	In India		Abroad	
	Value	Annual Growth rate	Value	Annual Growth rate
2001-2002	29245	-	-6615	-
2002-2003	24397	-16.58	-8803	-33.08
2003-2004	19830	-18.72	-8886	-0.94
2004-2005	26947	35.89	-10202	-14.81
2005-2006	39457	46.42	-26032	-155.17
2006-2007	102652	160.16	-67742	-160.23
2007-2008	139420	35.82	-75644	-211.66
2008-2009	158628	13.78	-81796	-8.13
2009-2010	151182	-4.69	-56924	30.41
2010-2011	132358	-12.45	-78257	-37.48
2011-2012	154961	17.08	-51794	33.82
2012-2013	146954	-5.17	-38768	25.15
2013-2014	186830	27.14	-56860	-46.67
2014-2015	215893	15.56	-24675	56.60
2015-2016	294258	36.30	-58476	-136.98
2016-2017	283292	-3.73	-44379	24.12
2017-2018	253977	-10.35	-58925	-32.78
2018-2019	301932	18.88	-87869	-49.12
2019-2020	396955	31.47	-92135	-4.85
2020-2021	406765	2.47	-81383	11.67

Source: *Reserve Bank of India, Handbook of statistics on Indian Economy, 2001-2002, Reserve Bank of India, Handbook of statistics on Indian Economy, 2008-2009, Reserve Bank of India, Handbook of statistics on Indian Economy, 2010-2011, Reserve Bank of India, Handbook of statistics on Indian Economy, 2015-2016 and Reserve Bank of India, Handbook of statistics on Indian Economy, 2020-2021*

It is clear from the table 6.8 that FDI in India has increased remarkably from Rs.29245 crores to Rs.406765 crores during 2001-2021.During 2002-2003 (-16.58 percent), 2003-2004 (-18.72 percent), 2009-2010 (-4.69 percent), 2010-2011 (-12.45 percent), 2012-2013 (-5.17 percent), 2016-2017 (-3.73 percent) and 2017-2018 (-10.35 percent) have shown a remarkable decline in annual growth rate of Foreign Direct Investment in India. The trend value of FDI abroad shown deficit balance during 2001-2021, where the value is at maximum during 2019-2020 of Rs.92135 crores.

Foreign Direct Investment is one of the major sources of capital flow for the economic development of India. After 1991, the government of India has taken several steps to ensure the foreign capital continuously flow into the country.

Table 3: Country-Wise Foreign Direct Investment flows to India (In US$ Billions)

Countries	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
Singapore	12.2	16.2	14.7	17.4	15.9
US	2.1	3.1	4.1	13.8	10.5
Mauritius	15.9	8.1	8.2	5.6	9.4
Netherlands	2.8	3.9	6.5	2.8	4.6
Switzerland	0.5	0.3	0.2	0.2	4.3
Cayman Islands	1.2	1.0	3.7	2.8	3.8
UK	0.8	1.4	1.3	2.0	1.6
Japan	1.6	3.0	3.2	1.9	1.5
UAE	1.0	0.9	0.3	4.2	1.0
Germany	1.1	0.9	0.5	0.7	0.7
Canada	0.3	0.6	0.2	0.0	0.5
Luxembourg	0.3	0.3	0.3	0.3	0.5
Thailand	0.1	0.1	0.0	0.1	0.5
France	0.5	0.4	1.9	1.3	0.3
Denmark	0.0	0.1	0.0	0.1	0.3
Others	4.2	4.2	4.7	6.3	3.1
Total	44.66	44.50	49.80	59.5	58.50

Source: Annual Report of RBI 2021-2022, Reserve Bank of India

It is clear from the table 3 that Mauritius, Singapore, Netherlands, US and others has been investing the most in India among the other countries with share of 35.60 percent, 27.32 percent, 6.27 percent, 4.70 percent and 9.40 percent during 2017-2018. Singapore was highest with share of 36.40 percent, further inflow of FDI from Thailand (0.22 percent) and Denmark (0.22 percent) was lowest among other countries during 2018-2019.During 2019-2020, share of inflow of FDI from Singapore (29.52 percent) to India was highest among other countries.

FACTORS AFFECTING FOREIGN DIRECT INVESTMENT

There are different factors which influence the FDI inflows in a country. The investors will assess various aspects before investing in country. Following are the factors which affects the foreign investment inflows in India.

Economic Growth: Foreign direct investment often targeted to selling goods directly to the country involved in attracting the investment. Therefore, the size of the population and scope for economic growth will be important for attracting investment. In the last decade, the Indian economy has grown by 7.0 percent. This has contributed to making India the fourth largest economy in the world in purchasing power parity terms. During 2015-2016, a GDP of 7.60 percent, India has overtaken China as the fastest growing economy.

Lower Wages Rates: A major incentive for a multinational to invest abroad is to outsource labor intensive production to countries with lower wages. Companies which are more labor intensive will often invest in poor countries with high populations because of the easily availability of cheap labor. In India, wage rates are less because of huge population in comparison to other countries. The many Western firms have invested in clothing factories in the Indian sub-continent.

Transport and Infrastructure: Foreign direct investment is also affected by availability of trade facilitation instruments such as proper infrastructure. Different transport facilities with a proper coordination between land, rail and air should be available for attracting the multinational companies to invest in India. Number of initiatives has taken by government of India in this regard. Development of national highways, creation of smart cities, improving road connectivity with villages has been allocated specific funds in the budge

Relaxation in Tax Rates: Tax regulations are also very important factor which encourage or discourage foreign investors. The multinational companies such as Apple, Google and Microsoft invest in those countries which have lower corporation tax rates. In 2006, India introduced the Special Economic Zone which provides more favorable atmosphere for carrying out foreign investment. In order to attract the FDI Government of India has extended incentives in the form of tax holiday, investment tax allowances etc.

Skilled Labor Force: A country with high numbers of skilled and educated personnel that are readily available will attract companies in need of skilled human resource. Some industries required skilled and semi-skilled labor. Many developing countries have large reserves of skilled and semi-skilled workers that are available for employment at wages significantly lower than in developed countries.

Strong Financial Sector: The financial sector influences the decisions of foreign investors to venture into specific foreign markets. India has well-regulated financial system which has allowed the global financial crisis without any major difficulties and presents an image of quality, resilience and transparency. India's banking sector is very strong, with quality balance sheets, high levels of competition and strong corporate governance.

Ease of Doing Business: The ease of starting and running a business is a very vital factor in attracting foreign direct investment. The Ease of Doing Business Index is normally used to rank the ability of countries to facilitate and expedite opportunities for the investors. Government of India has made efforts to smoothen the process of FDI entry into India through adoption of automatic route. Foreigners can directly invest in India either on their own or as a joint venture, with a few exceptions with regard to investment limits and sectors.

Favorable Labor Laws: In India, there are around 250 labor laws including both at central and state level. These laws have always been considered as a restraint to FDI. These laws make the operations of the firms in labor intensive industries very restrictive. But government of India has brought reforms in these laws from time to time for promoting the foreign direct investment

Investor-Friendly Market: The government of India has amended FDI policy to increase FDI inflows. The government of India took several initiatives such as "Make in India" and "Digital India" to promote foreign investment. In 2014, FDI norms were liberalized for 25 sectors under the "Make in India" initiative **(Goel, 2016).**

CONCLUSION

FDI plays a major role in the growth of the capital market of developing country like India. Foreign direct investment helps to cover the domestic saving constraint and provide access to the modern technology. Further, it encourages efficiency and productivity of the existing production capacity and produce new production opportunities. Recently, Government of India has given many incentives to foreign investors to promote the foreign direct investment in India. FDI has many positive effects on growth of an economy but, there are also negatives impacts that are impact on balance of payments, exploitation of resources of host country and increase completion for domestic companies. The efforts should be directed to maintain India's trajectory towards the world's most attractive destinations for foreign investment.

REFERENCES

- Goel, S. (2016). A study on factors affecting Foreign Direct Investment inflow in India. Worldwide Journal of Multidisciplinary Research and Development, 2(3), 28-31.
- Gori, S. (2015). Globalization of economy and the impact of Foreign Direct Investment on sustainable growth: An Indian perspective. International Journal of Development Research, 5(3), 3908-3912.
- Miteski, M., and Dijana J. Stefanova. (2016). The impact of sectorial FDI on economic growth in central, eastern and southeastern Europe, National bank of the Republic of Macedonia working paper no 1/2017
- Muneeswaran, K., &Vethirajan, C. (2022). Sector-wise analysis of FDI inflows in India. Mukt-Shabd Journal, 11(7).
- Sharma R. & Khurana N. (2013), Role of Foreign Direct Investment (FDI) in Different Sectors, International Journal of Advances in Management and Economics, Jan.-Feb., Vol. 2, Issue 1, 14-19
- Singh, D., & Kumar Niranjan, S. (2022). Foreign Direct Investment in India: A Trends Analysis. Research Journal of Humanities and Social Sciences, 101–104. https://doi.org/10.52711/2321-5828.2022.00017
- Singh, S. (2009). Foreign direct investment (FDI) and growth of status of India, regional disparity in India Issues and perspectives. ICFAI University Press. http://ssrn.com/abstract=3176622.
- Singh, S. (2009). Foreign direct investment (FDI) and growth of states and challenges. Wisdom Publications. http://ssrn.com/abstract=1324058.
- Singh, S. (2021). Countrywise Foreign Direct Investment inflows pattern in India. International Journal of Scientific and Research Publications, 11(12). doi:http://dx.doi.org/10.29322/IJSRP.11.12.2021.p12037
- Singh. (2019). Foreign Direct Investment (FDI) inflows in India, A review. Journal of General Management Research, 6(1), 41–53.
- Vethirajan et.al. (2019), FDI Equity Inflows in Economic Development in India. International Journal of Recent Technology and Engineering (IJRTE), 8(5), 197-201.DOI:10.35940/ijrte. D1047.1284S519.
- Vyas, H. S. (2020). Study of FDI inflows in India - Trends and Patterns. International Journal of Educational Research Studies, 4(18), 934-953. Retrieved from http://www.srjis.com.