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Foreign Direct Investment in India: Impact on Indian Economy

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Abstract

Foreign Direct Investment (FDI) plays a vital role in the speedy development of developing countries like India. Foreign Direct Investment plays an important role of bridging the gap between the available and required resources. In Indian context, FDI helps in achieving self-reliance in various sectors and in overall development of economy. The present study found that Foreign Direct Investment played a tremendous role to boost our economy but there are some thrust area like Health, Education, Medical, Road Construction, Public Transport, Agriculture etc. where Foreign Direct Investment is yet to play an effective role. Foreign Direct Investment is absolutely indispensable in new emerging global economic scenario but we need to limit its bad effect and taking into account the concept of inclusive growth.
The author has made his good efforts to investigate the scenario of FDI in India, advantageas derived from FDI and different chanllenges and limitation of FDI faced by India.
***Keywords**: Foreign direct investment, overall development, inclusive growth*

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1. INTRODUCTION

In the initial Stage of economic planning the National Economic Policy did factoring foreign capital but it was not high on priority list. Maximum foreign capital investment (cap. of 49%) was allowed in those priority sector where Domestic Capital proved inadequate. Following this policy guideline 2,475 in 1961-70, 3,041 during 1971-80 and 77,436 in 1981-90 foreign capital firms were sanctioned which accounted for 2000 crore rupees of foreign capital. As a matter of fact our initial policies were restrictive and selective with respected to FDI. In eighties the Govt. liberalized its policies vis a vis oil exporting developing economies. With the advent of economic reform 1991, the policy makers with a view two foreign capital mobilization increase the capital of foreign economic resources in different sectors of economy. Prior to this, foreign investment was limited to manufacturing, mining and petroleum products.

The increase in the limit and range of FDI investment and concomitant loosening of vice like grip regulatory framework has seen the rapid influx of FDI. In the recent years India's policy makers aim at providing momentum to twin process of employment generation and capital formation through enhanced Foreign Direct Investment. Apart from taking care of imbalance in the foreign trade and inflated export bills, it will be providing level playing field competitive environment to different stake holders and there by raising the living standard of common man and ultimately making it possible for India to be counted among the top industrialized nation the world. Period between January 2000 to March 2015 show the FDI inflows of US $ 368,439 million included Equity inflows, re-invested earnings and other capital. This may sound substantial but compare to FDI flows in China, Vietnam and Thailand during the same period, India's share appears less than satisfactory.

In the year 1991, the provision of 343 industries with up to 51% equity of foreign capital. Department of Industrial Policy & Promotion was set up to facilitate and expedite the process of applications who not following under self approval category. This board was reorganized in the year 1996. It were placed under the ministry of industry from prime minister's office. FDI has played a pivotal role in the development of economy in the last two decade. India has been at the receiving end of FDI inflows despite of global economic downturn and liquidity crisis. FDI has played an Important role in providing economic stability and maintaining high growth rate. To be more specific in the year 2011-12, the investment of US $ 35,121 Million in Indian economy was instrumental in foreign exchange reserve growth plus focus on those problems arising out of foreign exchange depletion. As per Industrial Policy & Foreign Exchange Promotion Council India had registered an average growth of 11% in FDI.

2. PURPOSE OF STUDY

The broad objective of the study is to analyze the impact of Foreign Direct Investment on various aspects on Indian economy. The specific objectives of the study are as follows:

- To study the trend and pattern of FDI towards Indian economy on various grounds.
- To assess the determinants of FDI inflows.
- To know the real picture of FDI scenario in India.
- To find out the challenges and limitation regarding FDI in India.

3. REASEARCH METHODOLOGY & COLLECTION OF DATA

The present study is based on the objectives like, how the status of Indian economy has improved by utilizing FDI after IInd generation economic reform. How much amount invested through FDI in Indian economies various sectors and to analysis the trend and pattern of FDI in India. To fulfill the all above said objectives. Data has been collected from secondary resources like Reports and Publication of Govt., RBI, Department of Industrial Policy and Promotion(DIPP), Economic Journal, Published Research Papers, Books, Magazine, Internet, etc. This research paper analyses FDI inflows into the country during the period 2000-2001 to 2014-15 and specially for the period of 2010-11 to 2014-15.

4. Review of Literature

Agarwal & Khan (2011) found their study on "Impact of FDI on GDP: A Comparative Study of India & China" that china's growth is more affected by FDI in comparison of India's growth, it shows that 1% increase in FDI would result in 0.07% increase in GDP in China and 0.02% increase in GDP in India. So effective use of FDI in China is much better than India.

Bhavya Malhotra (2014) has conducted a study on "Foreign Direct Investment: Impact on Indian Economy" the study found that India's foreign direct investment policy has been gradually liberalized to make the market more investors friendly.

R. Anitha (2012) found in her study on "foreign Direct Investment and Economic Growth in India" that FDI plays an important role in the long-term Development of India 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.

5. Scenerio of Foreign Direct Investment in India

FDI inflows with reinvestment figure into India from April 2000 to March 2014 is US $ 323.91 billion. Investment inflows in the first quarter of 2014 was US $ 7.74 Billion while in the same period of 2013, FDI inflows was US $ 5.48 Billion. Therefore, we found that FDI inflows increased in the same period for the two preceding year by 41%. In the financial Year 2013-14 total inflows of FDI was US $ 24.30 Billion while in the previous year 2012-13 FDI inflows was US $ 22.42 Billion. Therefore, India has registered 8% growth rate in FDI. Here, it must also take into account the fact that during the Global Economic Meltdown in financial year 2008-09. FDI in India maintain with US $ 40.4 Billion which is satisfactory in comparison of the rest world. According to a new World Bank Report, where china get 8% of global FDI investment, India could get only 0.8% inflows of FDI from global FDI investment.

TABLE-1: FINANCIAL YEAR WISE FDI EQUITY INFLOWS

(Equity capital components only)

S. No.	Financial Year (April- March)	Amount of FDI inflows		%age growth over previous year (in terms of US$)
		In Rs. crores	In US$ million	
1.	2000-01	10,733	2,463	---
2.	2001-02	18,654	4,065	(+)65%
3.	2002-03	12,871	2,705	(-)33%
4.	2003-04	10,064	2,188	(-)19%
5.	2004-05	14,653	3,219	(+)47%

6.	2005-06	24,584	5,540	(+)72%
7.	2006-07	56,390	12,492	(+)125%
8.	2007-08	98,642	24,575	(+)97%
9.	2008-09	142,829	31,396	(+)28%
10.	2009-10#	123,120	25,834	(-)18%
11.	2010-11#	97,320	21,383	(-)17%
12.	2011-12#^	165,146	35,121	(+)64%
13.	2012-13#	121,907	22,423	(-)36%
14.	2013-14#	147,518	24,299	(+)08%
15.	2014-15#	189,107	30,931	(+)27%
Cumulative Total (from April, 2000 to March, 2015)		1,233,538	248,634	-------

Note:

- Including amount remitted through RBI's-NRI Schemes (2000-2002)
- 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 2009-10 to 2014-15 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, August and October 2011.

Source: www.dipp.nic.in

TABLE-2: TOP TEN COUNTRIES HAVING MAXIMUM FDI INFLOWS

S. No.	Country	Foreign Direct Inflows (US $ million) (Equity inflows+Re-invested earnings+Other capital)			
		2014		2013	
		Invested Amount	Ranks	Invested Amount	Ranks
1.	China	129	1	124	1
2.	Hongkong	103	2	74	3
3.	U.S.A.	81	3	92	2
4.	U.K.	72	4	48	9
5.	Singapore	68	5	65	6
6.	Brazil	62	6	64	7
7.	Canada	54	7	71	4
8.	Australia	52	8	54	8
9.	India	34	9	28	15
10.	Netherland	30	10	32	14

Source: UNCTAD Report on World Investment 2015

The financial year wise FDI inflows analysis (Table-1) shows that India had registered 8% growth in 2013-14 in comparison to previous year 2012-13. Our FDI inflows reached to 2014-15 US $ 30,931 million. This amount was 27% excess in comparison of 2013-14. Central Govt. took serious initiative to enhance FDI in Construction sector and Retail sector through Make in India campaign. According to United Nation Conference on Trade and Development (UNCTAD) reports 2015 on World Investment says that during financial year 2013-14 FDI inflows in South

Asia goes to US $ 41 million. It become possible due to India's good performance regarding FDI. It is a matter of fact that India registered growth in FDI such a period when world level FDI in the year 2014 has come down US $ 1,230 million by reducing 16% from previous year.

India once again joined the list of top ten countries regarding FDI more inflows. India was out of the top ten list of countries in 2008. India reached the 9th position in that list of countries due to FDI inflows in 2013-14. However, with the inflows amount of FDI US $ 129 million China remains the first position following by Hongkong, U.S.A., U.K., Singapore, Brazil, Canada and Australia. UNCTAD's above report also state that growth in FDI is expected to remain in the next few years due to improvement in Indian economy.

TABLE-3: SHARE OF TOP INVESTING COUNTRIES FDI EQUITY INFLOWS

(Financial Years)

Amount rupees in crore (US $ million)

Rank	Country	2010-11	2011-12	2012-13	2013-14	2014-15	Cumulative inflows 2000-2015	%age of total inflows (in terms of US $)
1.	MAURITIUS	31855 (6,987)	46,710 (9,942)	51,564 (9,497)	29,360 (4,859)	55,172 (9,030)	425,657 (87,555)	35%
2.	SINGAPORE	7,730 (1,705)	24,712 (5,257)	12,594 (2,308)	35,625 (5,985)	41,350 (6,742)	167,157 (32,188)	13%
3.	U.K.	12,235 (2,711)	36,428 (7,874)	5,797 (1,080)	20,426 (3,215)	8,769 (1,447)	109,654 (22,210)	9%
4.	JAPAN	7,063 (1,562)	14,089 (2,972)	12,243 (2,237)	10,550 (1,718)	12,752 (2,084)	93,396 (18,352)	7%
5.	NETHERLANDS	5,501 (1,213)	6,698 (1,409)	10,054 (1,856)	13,920 (2,270)	20,960 (3,436)	77,258 (14,671)	6%
6.	U.S.A.	5,353 (1,170)	5,347 (1,115)	3,033 (557)	4,807 (806)	11,150 (1,824)	66,880 (13,751)	6%
7.	CYPRUS	4,171 (913)	7,722 (1,587)	2,658 (490)	3,401 (557)	3,634 (598)	39,363 (8,044)	3%
8.	GERMANY	908 (200)	7,452 (1,622)	4,684 (860)	6,093 (1,038)	6,904 (1,125)	38,509 (7,644)	3%
9.	FRANCE	3,349 (734)	3,110 (663)	3,487 (646)	1,842 (305)	3,881 (635)	22,588 (4,513)	2%
10.	UAE	1,569 (341)	1,728 (353)	987 (180)	1,562 (255)	2,251 (367)	15,120 (3,045)	1%
Total FDI inflows from all Countries*		97,320 (21,383)	165,146 (35,121)	121,907 (22,423)	147,518 (24,299)	189,107 (30,931)	1,233,538 (248,633)	----

*Includes inflows under NRI Schemes of RBI.

Note: %age worked out in US$ terms & FDI inflows received through FIPB/SIA+RBI's Automatic Route +acquisition of existing shares only.

Source: www.dipp.nic.in

Country wise FDI Inflows(TABLE-3) for the period of 2000-2015 shows that total FDI inflows amounted to 1,233,538 crore rupees for the whole period. Maximum portion of total FDI comes through Mauritius, amounted to 425,657 crore rupees which is 35% of total FDI inflows.

Singapore contributes 13% of total FDI inflows amounted to 167,157 crore rupees. With the investment of 109,654 crore rupees, United Kingdom is on third place with 9% portion of total FDI inflows. Despite above countries, much significant part of total FDI comes through Japan, Netherland and USA. The main reason behind maximum FDI inflows through Mauritius is that it is a tax shelter country. The investors of developed countries used Mauritius for tax related benefits regarding FDI in India.

TABLE-4: Sector wise Inflow of Foreign Direct Investment (Financial Year wise)

Amount Rupees in Crore (US $ Million)

Rank	Sector	2010-11	2011-12	2012-13	2013-14	2014-15	Cumulative Inflows (2000-2015)	%age of total inflows (in terms of US $)
1	Services Sector**	15,054 (3,296)	24,656 (5,216)	26,306 (4,833)	13,294 (2,225)	19,963 (3,253)	205,532 (42,713)	17%
2	Construction Development (Township, Housing, Built-up Infrastructure)	7,590 (1,663)	15,236 (3,141)	7,248 (1,332)	7,508 (1,226)	4,582 (758)	113,140 (24,064)	10%
3	Telecummunications (radio, paging, cellular mobile, basic telephone services)	7,542 (1,665)	9,012 (1,997)	1,654 (304)	7,987 (1,307)	17,732 (2,895)	84,092 (17,058)	7%
4	Computer Software & Hardware	3,551 (780)	3,804 (796)	2,656 (486)	6,896 (1,126)	13,564 (2,200)	73,235 (15,017)	6%
5	Drugs & Pharmaceuticals	961 (209)	14,605 (3,232)	6,011 (1,123)	7,191 (1,279)	9,211 (1,523)	65,282 (13,121)	5%
6	Automobile Industry	5,864 (1,299)	4,347 (923)	8,384 (1,537)	9,027 (1,517)	15,794 (2,570)	63,991 (12,383)	5%
7	Chemicals	10,612 (2,354)	18,422 (4,041)	1,596 (292)	4,738 (878)	4,077 (669)	49,310 (10,337)	4%
8	Power	5,796 (1,272)	7,678 (1,652)	2,923 (536)	6,519 (1,066)	3,985 (657)	46,640 (9,557)	3%
9	Metallurgical Industries	5,023 (1,098)	8,348 (1,786)	7,878 (1,466)	3,436 (568)	2,897 (472)	41,147 (8,547)	3%
10	Trading	---------	---------	3,901 (718)	8,191 (1,343)	16,962 (2,761)	43,799 (8,060)	3%

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

(II) 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.

Source: www.dipp.nic.in

Sector wise inflows of FDI(TABLE-4) for the period of 2000-2015 shows that maximum inflows of FDI comes towards Service Sector. Construction Sector comes at second place with 10% inflows of total FDI. In Indian economy foreign investors' third choice is Telecommunication Sector, which has 7% inflows of total FDI. Following above sector's, the FDI inflows mainly comes Computer & Hardware, Drugs & Pharmaceuticals, Automobile Industry, Chemical, Power and Metallurgical Industries. Hotel & Tourism Sector has been the centre of attraction for foreign investors up to 2011-12 but after that Trading Sector has taken place of Hotel & Tourism Sector. Now Trading Sector is on tenth place with 3% of total FDI inflows. Hotel & Tourism Sector come down at the twelfth place. Growth of FDI in Reconstruction Sector is expected to remain increase because continuous efforts by Govt. going on for survival of India's Industrial Sector.

RBI's Regional Centre wise FDI inflows for the period of 2000-2015 shows that 29% of total FDI comes in India through Mumbai regional centre. Maharashtra, Dadra & Nagar Haveli and Daman & Diu area comes under Mumbai regional centre. 20% portion of total FDI Comes through Delhi regional centre. Delhi, Haryana and some part of Uttar Pradesh comes under Delhi regional centre. Chennai and Bangalore regional centre contribute 7% each inflows of total FDI and Ahmadabad and Hyderabad regional centre score 4% each investment of total FDI inflows.

In term of future possibilities, the study shows that amount of FDI is about to increase in India. The atmosphere of the conference held in Australia G-20 Summit and 12th Indo-Asian conference held in Myanmar reveals, global investors looking new opportunities to invest in Indian economy. Another Important aspect of the new possibilities coming change in China's economic model. China called the new world's factory, wants to move to service sector which does not required much more foreign investment. Due to the rapid decline in China's young working population foreign investment in China expected to decrease. The resulting foreign capital with lower cost will be available worldwide in the next few years. India has fund which raised capital for small companies, score the 46% return for the half yearly period up to June 2014 which is 15 times against China.

According to world investment report 2013, India is expected to third major country in a list of countries that would attract more FDI for the period of 2013-15. This report also state that India has been successful in securing 80% investment from total Foreign Direct Investment of South Asia. The survey of Japanese's Bank for International Co-operation shows that India is in second position in term of mid-term investment and is the first choice in terms of long-term investment for the Japanese's investors while Japanese's investors first choice is Indonesia and second choice is China in term of mid-term investment. Arnest & Young Attractiveness Survey 2012 shows India is on top of the world on the basis of numbers of FDI projects following by Brazil an China. It has been possible due to opened for FDI to various sectors including multi brand retail and Telecommunication sector. Another important survey done in 2012 shows in term of future possibilities regarding FDI world's top ten leading countries are USA, China, Brazil, Canada, India, Australia, Germany, UK, Mexico, Singapore, Russia and France respectively. India is on the fifth position in that list.

6. ADVANTAGE DERIVED FROM FOREIGN DIRECT INVESTMENT

- The trend of economic activities move to acute velocity with the help of FDI in developing countries economy like India which has direct impact on entire organs of economy.
- By the FDI, more opportunity create in employment for those industries which are indirectly related to informal sectors.

- With the help of FDI, India can upgrade the old technology and also new technology can be made accessible.
- Without the proper use of FDI, it is very difficult to achieve the desired economic growth rate.
- It is possible to expand the business area's by use of FDI and also create opportunities to enter new business markets.
- It is possible to encourage the retail trade through FDI. Corruption can be reduced in the business world. A limit can be worn bridle on broker culture.
- FDI helps to establish competitive environment in economic surroundings whose ultimate effect comes before us as enhance economic growth rate and reduce economic disparity.
- Presence of the competitive environment in business world, helps to control inflation. Consumers can easily access global level products.
- In this era of globalization, FDI is essential for effective presence on the global economic scenario.
- Due to FDI, India able to reduce the gap price received by the producers and price paid by the consumers. So it is being possible to raise the living Standard of the masses.
- Now, India is able to pay the export bills because it has sufficient foreign exchange. It is possible due to enhance Foreign Direct Investment.
- Developing countries like India facing the deficit of saving. Foreign Direct Investment solved this problem and provide the help to reducing the deficit of Balance of Payment.

7. CHALLENGES AND LIMITATION OF FOREIGN DIRECT INVESTMENT

- As a result of FDI, our domestic Micro, Small and Medium business industries are depleted gradually. Employment creativity on those type of industries also affected in adverse direction.
- Corporate corruption is encouraged. According to a lobbies field report 2011, foreign corporate lobbyist involved in corporate scam by ignoring India's economic interest.
- In India, FDI comes mainly in service sector, manufacturing sector, computer software etc. FDI is very low in technology, Research, Infrastructure and Health related areas. High class mega cities people benefited mainly by FDI. Indian peasant, Agriculture and unorganized labor class is not receiving such type of benefits.
- As a result of FDI in small and Medium scale industries, new intermediaries are born like certificate agency, quality controller, standard determinater and packaging advisor which made possible the exploitation of small-scale industrialist and workers.
- Foreign Investment companies bring investment offers mainly developed states. They are ignoring the backward states for investment concern. It is against Indian constitution's concept of integrated and inclusive growth.

8. CONCLUSION & SUGGESTIONS

FDI is absolutely indispensable in new emerging global economic scenario but it needs to limit its bad effect and take into account the concept of inclusive growth. There must be some rectify measures have been taken regarding FDI policy by Indian policy makers. There should be need to reduce the tariff rate to be aimed at increase in export growth. The monetary policy should be made favorable in the context of FDI. This will facilitate the role of the bank rate in inflation control. The flow of FDI should be increased in basic infrastructure sector and science technology sector. The flow of FDI should be increased public welfare area's like Education, Health and Agriculture sectors. Efficient FDI should be used in knowledge sector in context of new emerging knowledge based global economy. The inflow of FDI should be extended in backward states, in order to remove economic, social and physical disparity found in different states. Black money stashed abroad is also likely to come through FDI, so efforts should be made bring more and more FDI it. The social utility of corporate sector must be reflected in FDI scenario to promote positive contribution in nation building.

India need to create such a FDI policy having regard to Indian functional youth population that any FDI proposal not return knocking on its economy door. India has many important reasons to attract FDI. In Indian economy many positive aspect present as huge urban & rural market, World's fastest growing middle class, English spoken new generation and significant return on Foreign Direct Investment etc. International comparative report (2014) says that India has been world's third biggest economy on the basis of purchasing power capacity after the USA and China. We have world's famous Multi-national Companies in Information Technology, Software, BPO, Pharmaceuticals, Automobiles, Electronics, Chemical and Metal sectors. India is become fast emerging country in the field of Medicine & Chemical Manufacturing and Biotechnology. So it is clear that India has great potential about Foreign Direct Investment. India needs such type of FDI policy so that it can increase. FDI in different sectors of economy, it can take it on the top of global economy with achieving the goal of social justice & social welfare through focusing important element of Human Development as Education, health, Transport, Road manufacturing, Medical facilities, etc.

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