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AN ANALYTICAL STUDY ABOUT INDIA'S FOREIGN DIRECT INVESTMENT

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Abstract

The full form of FDI is Foreign Direct Investment. FDI means "cross border investment made by a resident in one economy in an enterprise in another economy, with the object of establishing a lasting interest in the investee economy. It helps in transferring of financial resources, technology and innovative and improved management techniques along with raising productivity. The paper tries to study the need of FDI in India, to exhibit the sector-wise & year-wise analysis of FDI's in India, to rank the sectors based upon highest FDI inflows. The results show that Mauritius is the country that has invested highly in India followed by Singapore, UK., Japan, and USA and so on. It also shows that there has been a tremendous increase in FDI inflow in India during the year 2000 to 2013.

Key Words: *FDI, FDI inflows, FDI outflows, Growth, International Finance*

Introduction

The full form of FDI is Foreign Direct Investment.FDI means "cross border investment made by a resident in one economy in an enterprise in another economy, with the object of establishing a lasting interest in the investee economy. It helps in transferring of financial resources, technology and innovative and improved management techniques along with raising productivity and employment generation. It helps to increase competition within the local market and this brings higher efficiencies. It helps in increasing exports and tax revenues.

Definition

According to the International Monetary Fund (IMF), foreign direct investment, commonly known as FDI, "... refers to an investment made to acquire lasting or long-term interest in enterprises operating outside of the economy of the investor." The investment is direct because the investor, which could be a foreign person, company or group of entities, is seeking to control, manage, or have significant influence over the foreign enterprise.

History of FDI in India

The economic liberalisation in India refers to ongoing economic reforms in India that started on 24 July 1991. In 1991, after India faced a balance of payments crisis, it had to pledge 20 tons of gold to Union Bank of Switzerland and 47 tons to Bank of England as part of a bailout deal with the International Monetary Fund (IMF). In addition, the IMF required India to undertake a series of structural economic reforms. As a result of this requirement, the government of P. V. Narasimha Rao and his finance minister Manmohan Singh (currently the Prime Minister of India) started breakthrough reforms, although they did not implement many of the reforms the IMF wanted.

India in 1997 allowed foreign direct investment (FDI) in cash and carry wholesale. Then, it required government approval. The approval requirement was relaxed, and automatic permission was granted in 2006. Between 2000 and 2010, Indian retail attracted about $1.8 billion in foreign direct investment, representing a very small 1.5% of total investment flow into India. Until 2010, intermediaries and middlemen in India have dominated the value chain. Due to a number of intermediaries involved in the traditional Indian retail chain, norms are flouted and pricing lacks transparency.

Until 2011, Indian central government denied foreign direct investment (FDI) in multi-brand Indian retail, forbidding foreign groups from any ownership in supermarkets, convenience stores or any retail outlets, to sell multiple products from different brands directly to Indian consumers.

In 24 November 2011, India allowed foreign groups to own up to 51 per cent in “multi-brand retailers”.

In January 2012, India approved reforms for single-brand stores welcoming anyone in the world to innovate in Indian retail market with 100% ownership, but imposed the requirement that the single brand retailer source 30 percent of its goods from India. Indian government continues the hold on retail reforms for multi-brand stores.

In June 2012, Ingvar Kamprad Elmtaryd Agunnaryd (IKEA) (Swedish home furnishings retailer; derived from founder's initials and hometown) announced it has applied for permission to invest $1.9 billion in India and set up 25 retail stores. Fitch believes that the 30 percent requirement is likely to significantly delay if not prevent most single brand majors from Europe, USA and Japan from opening stores and creating associated jobs in India.

On 14 September 2012, the government of India announced the opening of FDI in multi-brand retail, subject to approvals by individual states. This decision has been welcomed by economists and the markets, however has caused protests and an upheaval in India’s central government’s political coalition structure. On 20 September 2012, the Government of India formally notified the FDI reforms for single and multi brand retail, thereby making it effective under Indian law.

Procedure for Receiving Foreign Direct Investment in India

An Indian company may receive FDI under the two routes as given under:

- **Automatic Route**: FDI is allowed under the automatic route without prior approval either of the Government or the Reserve Bank of India in all activities/sectors as specified in the consolidated FDI policy, issued by the Government of India from time to time.
- **Government Route**: FDI in activities not covered under the automatic route requires prior approval of the Government which are considered by the Foreign Investment Promotion Board (FIPB), Department of Economic Affairs, and Ministry of Finance.

Authorities Dealing FDI in India

- Foreign Investment Promotion Board (FIPB) is responsible for expeditious clearance of FDI proposals and review of the implementation of cleared proposals. It also undertakes investment promotion activities and issue and review general and sector based policy guidelines
- Secretariat for Industrial Assistance (SIA) acts as gateway to industrial investment in India and assists the entrepreneurs and investors in setting up projects. SIA also liaison with other government bodies to ensure necessary clearances.
- Foreign Investment Implementation Authority (FIIA) works for quick implementation of FDI approvals and resolution of operational difficulties faced by foreign investors.
- Investment Commission
- Project Approval Board
- Reserve Bank of India

Review of Literature

Klaus E Meyer (2003) n his paper "Foreign Direct investment in Emerging Economies" focuses on the impact of FDI on host economies and on policy and managerial implications arising from this (potential) impact. The study finds out that as emerging economies integrate into the global economies international trade and investment will continue to accelerate

As per Economic Survey (2003-04) the explosive growth of FDI gives opportunities to Indian industry for technological upgradation, gaining access to global managerial skills and practices, optimizing utilization of human and natural resources and competing internationally with higher efficiency. Most importantly FDI is central for India's integration into global production chains which involves production by MNCs spread across locations all over the world.

Sasidaran Gopalan and Ramkishen S. Rajan (June 2009) analyzed that the rise of India has led to both as source and host of FDI to generate a sizeable literature on the determinants and characteristics of inflows and outflows at an aggregate level.

Ravi Subramanian, CharuSachdeva, Sebastian Morris (March 2010) discussed on trends in India's outward FDI over the last decade and attempts to identify the driving factors for the same. The aim of the study was to provide policy makers with insights regarding levers which would help in encouraging FDI outflows and to stimulate further research in foreign investment from emerging economies. The paper also discussed the key policy changes that impacted outward FDI from India in the last decade and relationship of outward FDI with other macroeconomic indicators such as GDP and Fischer Open Differential.

K.S. ChalapatiRao and BiswajitDhar (February 2011) made an attempt on the ambiguities surrounding the definition and the non-adherence of international norms in measuring the FDI inflows. The study found that portfolio investors and round tripping investments have been important contributors to India's reported FDI inflows thus blurring the distinction between direct and portfolio investors on one hand and foreign and domestic investors on the other. These investors were also the ones which have exploited the tax haven route most.

Partha Sinha (May, 2012) on Record FDI outflows Report stated to TOI that Domestic uncertainties like policy flip-flops, combined with global risk aversion, is prompting foreign companies to increasingly repatriate their investments, categorized as foreign direct investment (FDI), out of India during the last three years ended December 2011. "FDI into India has risen exponentially since the 2000s. However, over the last three years some of this money is being repatriated," Global deleveraging had forced companies to sell their Indian assets and repatriate funds to their home country.

Ms. Parul Mittal and Mr. Sandeep Aggarwal (July 2012) made a general analysis of the inflows and outflows of FDI since the post liberalization era. The purpose of this paper was to provide an examination of foreign direct investment in various sectors. At the end of this examination, figures showed the trend of FDI inflows and FII in India and geographical distribution of FDI.

The paper by RBI (2012) seems to suggest that the divergent trends in FDI flows could be the result of certain institutional factors that dampened the investors sentiments despite continued strength of economic fundamentals. Findings of the panel exercise, examining FDI trends in ten select EMEs over the last 7 year period, suggest that apart from macro fundamentals, institutional factors such as time taken to meet various procedural requirements make significant impact on FDI inflows

- **According to Raghu Kumar, *the co-founder of*** RKSV, ***a leading low-cost broking firm*, in the web reference** http://profit.ndtv.com/news/economy/article-2014-could-be-a-breakthrough-year-for-indian-economy-374212, updated On: December 07, 2013 referred to Orkii.com, which tracks economic development in all countries and projects future growth among different aspects of the economy, India ranks as number 6 out of a total of 136 countries where data on private consumption growth is available for the year 2014.
- **According to the article published in the news paper "The Hindu" under Business Line** dated January 29, 2014, Foreign direct investment flow into India in 2013 increased 17 per cent to $28 billion, but its ranking among the top 20 attractive global destinations slipped one notch to 16.
- **According to the article published in the news paper "The Hindu" under Business Line** dated February 14, 2014, India will see more investments from American companies once it decides to raise the FDI level in the defence sector from 26 per cent to 49 per cent, a top Boeing executive has said.

Objective of the Study

- To study the growth of total FDI inflows in India from 2000 to 2013.
- To study the growth of total FDI outflows from 2002 to 2012.
- To analyze the top investing countries and sectors in FDI inflows in India.

Limitations of the Study

The study on country and sector wise inflows is made only for the past 3 year period accounting to the financial year 2011 - 2014 (up to November 2013).

Research Methodology

This research is a descriptive study in nature. The secondary data was collected from various journals, magazines, and websites particularly from the Department of Industrial Policy & Promotion, Ministry of Commerce and Industry etc. The study is based on the time period from 2000-2013. Graphs and tables have also been used where ever required to depict statistical data of FDI during the study period.

Analysis and Discussion

Table 1 DIPP'S - Financial Year-Wise FDI Equity Inflows in India

Year	Amount In Rs Crores	Amount In US$ Million	% Age Growth over Previous Year (in terms of US$)	Cumulative % Growth
2000-01	10,733	2,463	--	--
2001-02	18,654	4,065	(+)65%	65%
2002-03	12,871	2,705	(-)33%	32%
2003-04	10,064	2,188	(-)19%	13%
2004-05	14,653	3,219	(+)47%	60%
2005-06	24,584	5,540	(+)72%	132%
2006-07	56,390	12,492	(+)125%	257%
2007-08	98,642	24,575	(+)97%	354%
2008-09	142,829	31,396	(+)28%	382%
2009-10 #	123,120	25,834	(-)18%	364%
2010-11 #	97,320	21383	(-)17%	347%
2011-12 # ^	165,146	35,121	(+)64%	411%
2012-13 #	121,907	22,423	(-)36%	375%
2013-14(Apr-Nov, 2013)**	92,994	15,458		

Source: As per DIPP's FDI data base

Note

1. *including amount remitted through RBI's-NRI Schemes (2000-2002).*
2. *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, 2010-11, 2011-12 & 2012-13 (from April, 2012 to September, 2012) 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.

'' An additional amount of US$ 4,035 million pertaining to the year 2008-09, since reported by RBI, has been included in FDI data base from February, 2012.*

*** An amount of US$ 1,218 million has been added in the month of September, 2013 after clarification received from RBI vide its letter No FE.CO.FID/12639/10.02.035(stat)/2013-14 dated 8th January, 2013 for M/s Hindustan Unilever Ltd. Equity Inflows for the month of September, 2013 are now US$ 4,132 million.*

Interpretation

It shows that the total amount of FDI inflows in India during the last 10 years i.e 2003 to 2013. The FDI inflow for the year 2003-04 is at 10,064 crore rupees. In 2008-09 there was a huge investment in FDI in 142,829 crore Rupees and started to dip by 18% and 19% in 2009-10 and 2010-11.After that the FDI inflows have started to gain its momentum.

So it can be said that the foreign investment have been on rise in India. The overall cumulative growth % in the study period shows constant fluctuations. It also shows that there has been a tremendous increase in FDI inflow in India during the year 2000 to 2013.

Table 2 Total FDI Outflows for the Period 2002-2012 (in US $ mn)

Year	Amount in USD million	% Age Growth over Previous Year (in terms of US$)	Cumulative % age
2002-03	1,679	...	...
2003-04	1,879	(+)12%	12%
2004-05	2,179	(+)16%	28%
2005-06	2,978	(+)37%	65%
2006-07	14,344	(+)382%	446%
2007-08	17,281	(+)20%	467%
2008-09	19,257	(+)11%	478%
2009-10	15,928	(-)17%	461%
2010-11	15,346	(-)4%	457%
2011-12 (P)	12,608	(-)18%	439%

Source: OECD Fact book: Economic, Environmental and Social Statistics; (P) - Provisional

Interpretation

It shows that the amount of total FDI outflows for the period 2002 to 2012 and the highest FDI outflows in the country is the period 2006-07 with 14,344 in US $ mn from 2,978 USD mn in 2005-06. The succeeding periods show constant fluctuations. It also shows that there has been a tremendous increase in FDI outflow in India during the year 2002 to 2012.

Table 3 Total FDI Inflows for the Period 2003-2013 (in US $ mn)

Year	Amount in USD Million	% Age Growth over Previous Year (in terms of US$)	Cumulative % Growth
2000-01	4,029	--	--
2001-02	6,130	(+)52%	(+)52%
2002-03	5,035	(-)18%	(+)34%
2003-04	4,322	(-)14%	(+)20%
2004-05	6,051	(+)40%	(+)60%
2005-06	8,961	(+)48%	(+)108%
2006-07	22,826	(+)155%	(+)263%
2007-08	34,843	(+)53%	(+)316%
2008-09	41,873	(+)20%	(+)336%
2009-10 (P) (+)	37,745	(-)10%	(+)326%
2010-2011 (P) (+)	34,847	(-)8%	(+)318%
2011-12 (P)	46,556	(+)34%	(+)352%
2012-13 (P)	36,860	(-)21%	(+)331%
2013-14(up to Nov 2013)	21,320		

Source: As Per DIPP's FDI Database.

Interpretation

It shows that the highest amount of FDI inflows was in the period 2011 -12 with a recovery after the recession period showing a dip of -10% during the year 2009-10 and 2010-11 (-8%). i.e. 46,556 in US $ mn. The overall cumulative growth % in the study period shows constant fluctuations. It also shows a tremendous increase in Total FDI inflow in India during the year 2000 to 2013.

Table 4 Sectors Attracting Highest FDI Equity Inflows in India

Ranks	Sector	2011-12 (April - March)	2012-13 (April - March)	2013-14 (April-November, 2013)	Cumulative Inflows (April '00-November'13)	% age to total Inflows (In terms of US$)
1	Services Sector **	24,656 **(5,216)**	26,306 **(4,833)**	8,661 **(1,4679**	180,936 **(38,713)**	**19 %**
2	Construction Development: Townships, Housing, Built-up Infrastructure	15,236 **(3,141)**	7,248 **(1,332)**	5,435 **(889)**	106,484 **(22,970)**	**11 %**
3	Telecommunications (Radio Paging, Cellular Mobile, Basic Telephone Services)	9,012 **(1,997)**	1,654 **(304)**	198 **(33)**	58,930 **(12,889)**	**6 %**
4	Computer Software & Hardware	3,804 **(796)**	2,656 **(486)**	3,194 **(529)**	55,968 **(12,220)**	**6 %**
5	Drugs & Pharmaceuticals	14,605 **(3,232)**	6,011 **(1,123)**	7,024 **(1,252)**	55,904 **(11,571)**	**6 %**
6	Chemicals (other than Fertilizers)	18,422 **(4,041)**	1,596 **(292)**	2,863 **(482)**	43,358 **(9,362)**	**5 %**
7	Automobile Industry	4,347 **(923)**	8,384 **(1,537)**	4,834 **(838)**	44,004 **(9,133)**	**4 %**
8	Power	7,678 **(1,652)**	2,923 **(536)**	3,159 **(523)**	39,296 **(8,357)**	**4 %**
9	Metallurgical Industries	8,348 **(1,786)**	7,878 **(1,466)**	1,616 **(274)**	36,431 **(7,781)**	**4 %**
10	Hotel & Tourism	4,754 **(993)**	17,777 **(3,259)**	1,142 **(194)**	34,402 **(6,826)**	**3 %**

Source: As per DIPP's FDI data base

Note

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

1. *Cumulative Sector- wise FDI equity inflows (from April, 2000 to November, 2013) are at - Annex-'B'.*
2. *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.*

Interpretation

According to the table Service sector is with highest FDI inflow of 19%, after which the next follows the construction development and Telecommunication sector with 11% and 6%.

Table 5 Statement on Country-Wise FDI Inflows

Ranks	Country	Amount Rupees in crores (US$ in million)				
		2011-12 (April -March)	2012-13 (April -March)	2013-14 (April- November,13)	Cumulative Inflows (April '00 - November'13)	% age to total Inflows (in terms of US $)
1	Mauritius	46,710 **(9,942)**	51,654 **(9,497)**	20,445 **(3,417)**	361,575 **(77,084)**	**37 %**
2	Singapore	24,712 **(5,257)**	12,594 **(2,308)**	17,658 **(3,056)**	107,840 **(22,516)**	**11 %**
3	U.K.	36,428 **(7,874)**	5,797 **(1,080)**	19,854 **(3,123)**	100,313 **(20,671)**	**10 %**
4	Japan	14,089 **(2,972)**	12,243 **(2,237)**	4,376 **(719)**	74,470 **(15,269)**	**7 %**
5	U.S.A.	5,347 **(1,115)**	3,033 **(557)**	3,355 **(572)**	54,277 **(11,693)**	**6 %**
6	Netherlands	6,698 **(1,409)**	10,054 **(1,856)**	9,184 **(1,508)**	51,563 **(10,473)**	**5 %**
7	Cyprus	7,722 **(1,587)**	2,658 **(490)**	2,253 **(370)**	34,581 **(7,260)**	**4 %**
8	Germany	7,452 **(1,622)**	4,684 **(860)**	3,580 **(633)**	29,092 **(6,114)**	**3 %**
9	France	3,110 **(663)**	3,487 **(646)**	1,237 **(208)**	18,102 **(3,781)**	**2 %**
10	U.A.E.	1,728 **(353)**	987 **(180)**	1,317 **(215)**	12,624 **(2,638)**	**1 %**
Total FDI Inflows from All Countries *		**165,146 (35,121)**	**121,907 (22,423)**	**92,994 (15,458)**	**989,907 (208,862)**	**-**

Source: As per DIPP's FDI data base

Note

**Includes inflows under NRI Schemes of RBI.*

1. *Cumulative country-wise FDI equity inflows (from April, 2000 to November, 2013) are at - Annex-'A'.*
2. *%age worked out in US$ terms & FDI inflows received through FIPB/SIA+ RBI's Automatic Route + acquisition of existing shares only.*

Interpretation

The report shows that the Mauritius country is the highest foreign investor in India with 37%. After Mauritius, Singapore and UK invest the highest FDI in India with 11% and 10% respectively and Japan with 4th position in FDI in India.

Findings

The study shows that the inflows and outflows are constantly performing well in terms of growth with a tremendous growth after the recession period.

It also depicts that Service Sector plays a major role with regard to foreign direct investments acting as a priority sector in investment and Construction development being second shows much scalability of improvement in FDI policy reforms. Mauritius and Singapore ranks the top in investing countries with maximum FDI inflows year after year.

Conclusion

It can be observed from the above analysis that at the sectoral level of the Indian economy, FDI has helped to raise the output, productivity and employment in some sectors especially in service sector. Indian service sector is generating the proper employment options for skilled worker with high perks. On the other side banking and insurance sector help in providing the strength to the Indian economic condition and develop the foreign exchange system in country. So, we can conclude that FDI is always helps to create employment in the country and also support the small scale industries also and helps country to put an impression on the world wide level through liberalization and globalization.

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