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A Study of FDI Inflow in India

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Abstract – This paper attempts to know liberal policy framework in FDI on industrial sector and its limits. Study also justifies various determinants of FDI and its advantages and specification different routes of FDI also reveal the trend in inflow of FDI from 2000 to 2017.Service sector receives the highest FDI inflows recording a total inflow of 59,476.49 US Million Dollars. The actual inflows of FDI during 2005 –2017 have been through RBI's automatic route it accounts to 64.98% of total FDI flow.

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INTRODUCTION

Foreign Direct Investment (FDI) is a controlling ownership in a business enterprise in one country by an entity based in another country. FDI differ substantially for direct investment such as portfolio flows, where in overseas institution invest in equalities listed on nation's stock exchange. FDI means investment in host country by the foreign country. It gives benefit both countries (host and foreign country) which gives drastic effect. It is non-debt foreign assets. The role of FDI is important in transfer of technology and technical knowhow .FDI refers to the net inflows in an enterprise operating other than that of investor. It is sum of equity capital.

The department of industrial policy and promotion (DIPP) gives a liberal policy on FDI under which FDI up to 100% in industrial sector. The reforms include increasing the FDI limit up to 100% with 49% under automatic route in Defense sector. Total FDI into India, since April including equity inflows, reinvented earnings and other capital is US$ 484.35 billion (April 2000 - March2017). This study highlights the FDI inflow into India for the period (April 2000-March 2017).

FDI contributes to both factor productivity and income growth in host countries, beyond the domestic investment would call normally. previous empirical studies consider the strong relation between FDI and GDP, it could be noted that FDI effects the economic development in India. The FDI has an upward shooting tendency. The amount of FDI widely varies depending on each States. If more state would demand for larger amount of FDI, then economic gap among States would decrease. The whole nation would be unable to increase its GDP.

GDP (Gross domestic product) is an aggregate measure of production equal to the sum of the gross value added of all resident institutional units engaged in production (addition all taxes, and deducting the subsidies, on product not included on the value). The sum of the final use of goods and services measured in purchaser's prices, less the value of imports of goods and services, or the sum of primary incomes distributed by resident producer unit.

The investors are being attracted to those states where infrastructure facilities are available, and availability of cheap labour. There first motive is to earn profit and not social benefit. India will have to improve infrastructure facilities, basic needs of people and states in India. By improving these all, FDI investor will attract and FDI rate will increase in India can attain sustainable economic growth, reduce poverty, increase employment and also increase standard of living of the people with increase in income. IMF and OECD define FDI in terms of “Direct investor" and “Direct investment Enterprise".

A direct investor may be an individual, an incorporated, private or public enterprise, government, group of related individual, operating in a country other than the country resident.

A Direct Investment Enterprise is an incorporated enterprise in which foreign investors will have 10% or more of ordinary shares or voting power of an incorporated enterprise or the equivalent of an unincorporated enterprise. Direct Investment Enterprise may be subsidiaries, associates that all establish in foreign country.

MEANING OF FDI

Foreign Direct Investment means “Cross Border” investment by resident entity in one country with objective of obtaining a lasting interest in an enterprise resident in another economy.

FDI offers exclusive opportunities to enter into the international or global business, new market and marketing channels, introduction of new technology and expertise, expansion of company with new or more product or service and cheaper production facilities. Any country abroad is the net inflow of investment in order to acquire management control and profit sharing or the whole ownership of an accredited company operating in the country receiving investment. FDI also provides opportunities for technological transfer and up gradation and other. It also helps in broaden the market accessibility for both host and home country.

LITERATURE REVIEW

Nilofer Hussaini NH (2011) the author's has highlights the measure economic determinants of FDI inflow in India. The FDI inflow has been fluctuating from many years in various sectors of India .The FDI inflows was correlated with economic factors and India is ready to boost up foreign investment. India has ability to attract foreign investors.

Sapna Hooda (2011) There main aim is to study trends and patterns of FDI, determinants of FDI and measure impact of FDI in Indian economy. The various tools for analyzing the pattern are trend analysis, annual growth rate, regression analysis etc. This research has shown problem in economy, India is continued to attract FDI inflows. India is flexible in policies and foreign investors were finding opportunities in country.

Priyanka Sahni (2012) The author has studied the trends and determinants of FDI inflow into India for the period from 1992- 1993 to 2008-2009 . Ordinary least squares method has been used by author to analyse time series data. The GDP, inflation is important factors which attracts the FDI inflows in India whereas Foreign Exchange Reserve are not important in explaining FDI inflows.

Dr. Mamta Jain, Priyanka Laxmi Meena, TN Mathura (2013) The author has studied the correlation between FDI and Economic Growth over a period 2000-2001 to 2009 – 2010 . The FII and FDI are influencing the economic development to greater extent. FII is more beneficial for foreign investors as compared to FDI.

Mrs. Sisili T, Dr, Elango D (2013) The FDI has three key variables which suggest the basic determinant of FDI inflow are:- Size of market , Growth of market and Exchange rate . Size of market has expanded due to FDI inflow, growth of the market has increased, but exchange rate influence FDI inflow due to changes in currency.

Sharmila Devi J C , Saifilali M I (2013) The author’s uses time series data for period 2000 – 2001 to 2011 -2012 and studied Ordinary Least Square method . Results that among the selected variables, export, inflation shows 5% significance level. The researcher uses various parameters which influence the business environment of country like growth rate, inflation and export is having direct influence which attracts more FDI.

Sumit Parashar (2015) the author has studied determinants of FDI in both China and India. It has found that during 1991 India and 1992 China has measure economic problems. Various indicators are infrastructure, market size, growth rate, inflation. Market size plays vital role in both countries. When wage rate is low in China it plays important role in attracting FDI, whereas in India policy plays important role in attracting FDI .

Alfaro, L (2003) The GDP and inflation has positive impact on FDI. He has explained some measure independent variables are GDP, free trade, interest rate , money growth and dependent variable are FDI .

Muhammad Azam, Ling Lukman (2010) In this author studied the trends and importance of FDI in selects countries . Regression model and Least Squares has applied to estimate various economic effects of FDI. The Market size, physical infrastructure, investment are important determinant of FDI. The author suggested enhancing more FDI into Pakistan, India and Indonesia. The management needs to assure economic and political stability, peace, law and order which gives equal importance to monetary and fiscal policy.

Alan, A and Shan, S.Z.A (2013) Determinants of FDI OECD Countries. The relationship between market size and labor cost. The OECD countries are Australia, France, Japan, USA etc. The independent variables which effect on FDI corporate tax, inflation, political stability, and dependent variable depends on variation of independent variable. The growth of FDI impact on various sectors like primary, secondary sector which refers to manufacturing sector or service sector.

OBJECTIVES

1. To investigate the determinants of FDI in India.

2. To examine the trends and pattern of FDI towards India.

RESEARCH METHODOLOGY

This research is a descriptive study in nature. The secondary data was collected from various journals, magazines and websites particularly from the RBI monthly bulletin, development of Industrial policy and promotion. The study Is based on the time period of FDI inflow into India from 2000-2017 and route wise FDI inflow from 2005-2017. Graphs and tables have also been used whatever required depicting statistical data of FDI during the study period.

DETERMINANTS OF FDI

1. **Size of market**: - The developing countries market demand for certain goods and exceeds the supply. The low cost marketing represents the first step of MNC's into market. The best important way is doing business and gets opportunities from the country.

2. **Political stability**:- Companies are generally gives larger contribution of capital into investment but some political questions yet not solved.

3. **Micro – Economic Environment: -** Level of prices and exchange rate enhance the level of uncertainty, making business planning difficult. This increases the risk and affects the inflow of FDI.

4. **Legal and Regulatory Framework**:- The market economy establish for Legal and regulatory framework in private sector activities and foreign owned companies. The relevant areas are protection of property rights, profit and free Market for currency exchange.

5. **Access to basic inputs**: - Many developing countries have skilled and unskilled Labours for employment at wages lower than in developed countries. Natural resources such as oil, gas and minerals also determine the extent of FDI.

Advantages of FDI

1. Development of human capital resources.
2. Reduce cost of production.
3. Increase productivity.
4. Access to market
5. Access to resources
6. Employment and Economic boost

Disadvantages of FDI

1. Conflicts of laws
2. Loss of control
3. Effect of national environment
4. Effect of culture

FDI INVESTMENTS ROUTES INTO INDIA

A foreign company planning to set up business operation in India

1. Incorporate a company under Companies Act 1956, as a joint venture or wholly owned subsidiary.

2. Branch office of the foreign company which intake activities under Foreign Exchange Management

FDI investment in equity shares, preference shares and debenture. Partly paid equity shares and warrants issued by Indian company with provision of the Companies Act 2013 and SEBI guidelines are eligible to FDI instruments.

INDIAN COMPANY RECEIVES FDI UNDER TWO ROUTES

1. **Automatic Route**:- The foreign investors does not require any approval from RBI or Government of India for investment in sector permitted under automatic route.

2. **Government Route**:- The foreign investors should obtain approval from ministry of finance Government of India, department of economic affairs for the investment.

Sectorial Composition of FDI

There are sartorial limits designed by RBI to limit the FDI.

► 100% investment has been allowed to following sector.

1. Private sector banking
2. Housing and real estate
3. Hotel and tourism
4. Petroleum
5. Roads and highways
6. Ports and harbours
7. Advertising
8. Films
9. Mass rapid transportation

10. Power

11. Drugs and pharmaceuticals

12. Pollution control and management

13. Special economic zones

14. Airports are allowed with 74%

15. Telecommunication are allowed with 49%

16. Insurance with 26%

SERVICE SECTOR

21st Century has brought incredible changes in the global economies, because of remarkable contribution of service sector. The dynamics of service sector have introduced new growth of investment, income, employment etc. The growth rate in service sector after 1980's there has been different stories of Indian Economy. By the 2000, India is one of the fastest growing economies in the world, by the outstanding growth of service sector. Government of India takes active participation to measure the growth rate of service sector, by inviting FDI in this sector.

Over the past decades, the service sector has expanded rapidly and has played an important role in national economy and international economy. The share of services in world trade and investment has been increasing. The FDI structure has shifted worldwide towards services. India opens the door for foreign companies in the export – oriented service which could increase the demand of unskilled workers and low skilled services which also increases the wage level in these services. There is potential for positive spill over to host 189 economies, there is improvement in competing service firms as well as customers and suppliers .Growth of Indian financial sector after liberalization, the insurance industry growing rapidly. Governor of India has plan to issue some new license for privatization of Indian banking sector and it is assumed that the sector will continue with sartorial growth.

FDI INFLOWS IN SERVICES

FDI sector inflow to service sector has done drastic changes in past few years. The country has expired a huge increase in the inflow of FDI. It is important to analyze the annual growth rate of FDI inflows in service sector. Annual share to the total FDI inflows in service sector, trend analysis and share of service sector in GDP to know the contribution of service sector to the Indian Economy.

Table 1 :- FDI inflows into India during April 2000 – March 2017

Financial Year	US $ (Million)	Growth %
2000 -2001	4,029	-
2001 – 2002	6,130	52.0
2002 – 2003	5,035	-18.0
2003-2004	4,322	-14.0
2004 – 2005	6,051	40.0
2005 – 2006	8,961	48.0
2006 – 2007	22,826	155.0
2007 – 2008	34,843	53.0
2008- 2009	41,873	20.0
2009 – 2010	37,745	-10.0
2010 – 2011	34,847	-8.0
2011 – 2012	46,556	34.0
2012 – 2013	34,298	-26.0
2013 – 2014	36,046	5.0
2014 – 2015	45,148	25.0
2015 – 2016	55,559	23.1
2016 – 2017	60,082	8.0
Total	4,84,351	17.2 (CAGR)

Source:- Department of Industrial policy and Promotion

FDI inflow into India has increased from 4.03 US $ Million to 60.08 US $ Million and registering into compounded annual growth rate (CAGR) 17.2. Economy reforms in India have enhanced the FDI inflow into India during research. It attracts US $ 484.3 Billion since April 2000. India has increased their growth from 2005 to onwards after India completed 10 years it becomes signatory to WTO agreement from1st January, 1995.

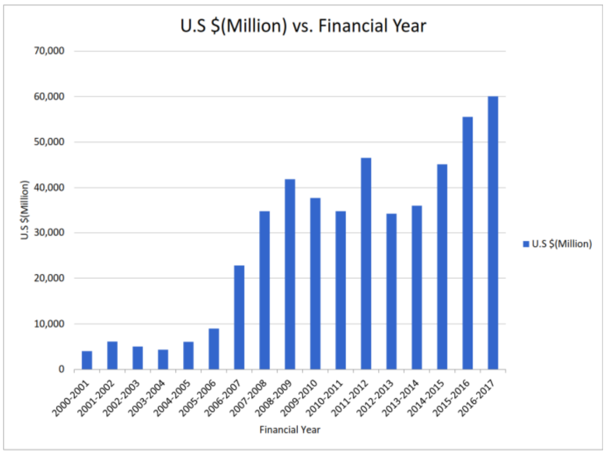
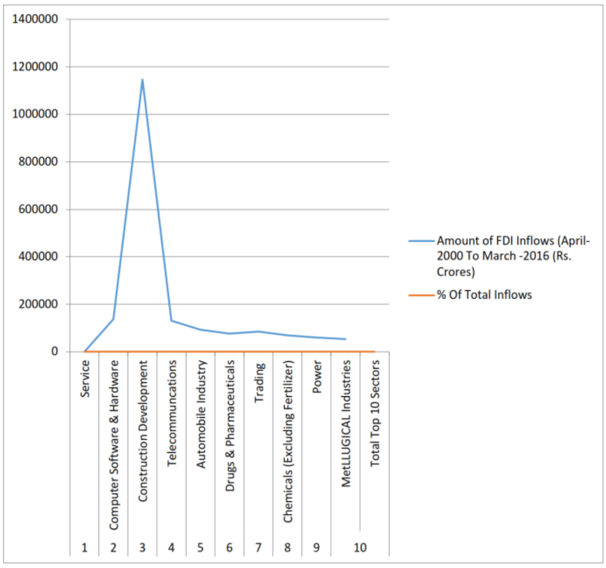


Table 2:- FDI inflow into India – Top 10 sectors

SR NO.	Sectors	Amount of FDI inflows (April 2000 – March 2016)		% Total Inflows
		(Rs. Cores)	(US $ Million)	
1.	Services	3,16,567.77	59,476.49	17.92
2.	Computer software and hardware	1,36,789.08	24,669.49	7.43
3.	Construction development	1,14,638.90	24,293.08	7.32
4.	Telecommunication	1,30,163.87	23,946.04	7.21
5.	Automobile industry	92,218.42	16,673.91	5.02
6.	Drugs and Pharmaceuticals	75,820.05	14,706.89	4.43
7.	Trading	84,557.43	14,210.86	4.28
8.	Chemicals (excluding fertilizers)	68,951.96	13,293.09	4.00
9.	Power	60,086.74	11,589.13	3.49
10.	Metallurgical industries	53,074.07	10,330.53	3.11
Total top 10 sectors				45.7

Source:- Department of Industrial Policy and Promotion

The top 10 sectors attracted the highest FDI inflow in India. It has been observed that amongst all the sectors, service sector has highly attracted to FDI inflow in India. It can be further observed that top 10 sectors contribute to nearly 45.7% of all the sectors in Indian economy indicating these industries.



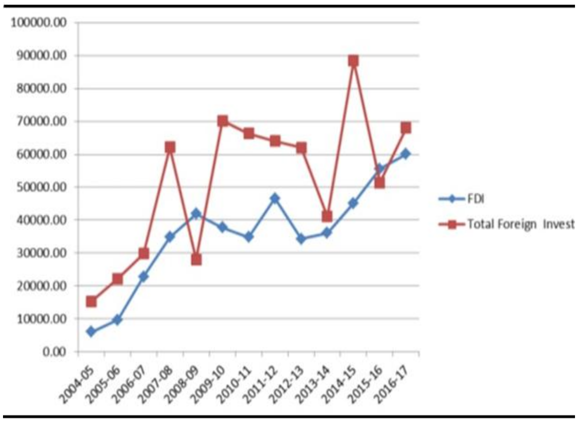
Source:- RBI Monthly Bulletin

Table :- 3 Route wise inflow of FDI during the period 2005 – 2017

Year	FIPB	%	RBI	%	Other	%	Total
2005	1,062	28.11	1,258	33.30	1,458	58.59	3,778
2006	1,862	38.70	2,233	46.41	716	14.88	4,811
2007	2,156	13.08	7,151	43.39	7,174	43.53	16,481
2008	2,298	8.55	17,127	63.75	7,439	27.69	26,864
2009	5,400	16.84	21,332	66.53	5,334	16.63	32,066
2010	3,471	12.79	18,987	69.94	4,688	17.27	27,146
2011	1,945	8.74	12,994	58.40	7,311	32.86	22,250
2012	3,046	8.50	20,427	56.97	12,383	34.54	35,856
2013	2,319	10.13	15,967	69.77	4,598	20.09	22,884
2014	1,185	4.69	14,869	58.83	9,220	36.48	25,274
2015	2,219	6.96	22,530	70.66	7,163	22.45	31,912
2016	3,574	8.69	32,494	79.04	5,044	12.27	41,112
2017	5,900	13.20	30,417	68.04	8,388	18.76	44,705
Total	36,437	10.87	1,54,875	64.98	67,458	24.14	3,35,139

Source:- RBI Monthly Bulletin

FDI is most important source of foreign investment inflow in developing countries like India. Before 1991, the inflows in India are not satisfactory. The amount of actual inflows of FDI during 2005 – 2017 for the US $ 3,35,139 million out if which inflow of RBI's automatic route is 64.98% , government FIPB approval for 10.87% and remaining 24.14% share by another route. 28.11% to 13.20% is the total inflow of FDI from 2005 -2017 in FIPB .RBI route has attracted for 33.30% to 68.04% is total inflow of FDI. Other route has decreasing trend which is 38.59 in 2005.



FINDINGS

1. The compounded Annual Growth rate (CAGR) for FDI inflow is calculated the 17.2% which means FDI inflows increased at the rate of 17.2 %.

2. The total top 10 sectors FDI inflows into India is 45.7%.

3. The total FDI in three routes during the period 2005- 2017 is US $ 3, 35,139 million. RBI total investment is 64.98. The government route and other route is 10.87% and 24.14%.

RECOMMENDATIONS

1. Government requires huge amount of funds to develop the infrastructure sector in India.

2. The government should have control over the corruption, red - tapism. So, that large number of investors should attract with FDI inflow.

3. The decisions which should made by the government should have effect on inflation, exchange rate etc.

CONCLUSION

Foreign capital is considered to be vital components for the economic growth in developing country. Government of India has decreased its foreign capital policies and norms and many initiatives to attract foreign capital. FDI inflows of India were found to influence by GDP, exchange rate, inflation rate of India. Indian economic reforms started in 1991 the growth of Indian Economy. This study focused on the trends of FDI inflows into

India for the period April 2000- March 2017. The analysis shows that FDI inflow into India has exhibit a growth since 2000. The amount of FDI in India has been approved by various routes such as government route, RBI automatic route and other routes. It is observed that US $ 3, 35,139 Million of total FDI was received through three routes during 2005 – 2017. Government requires huge amount of fund to develop the infrastructure sector in India. The financial requirement can increasing the FDI inflow and formulates policies. If India wants to attract more FDI India has to improve or create better facilities. FDI has helped to raise the output Productivity and especially in service sector.

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