Study of FDI in India

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***Abstract*— With the start of globalization, many developing countries, mostly those in Asia, are witnessing an huge flow of FDIs during the past two decades. As compared to other Asian countries India witnessed the FDI inflows much later, but ever since India has been a hub and an attractive FDI destination. This research paper purposes to study the impact of FDI on the Indian economy, predominantly after two decades of economic reforms and also the challenges Indian economy is facing to position itself in global FDI space. The analysis provides the major policy implications and also draws attention on the difficulties in inferring FDI data in India.**

***Index Terms*: FDI, Investors, Indian Economy**

I. OBJECTIVES

The research paper covers the following objectives:

- To check the determinants of FDI inflows.
- To assess the impact of FDI on the Indian economy.
- To understand the flow of FDI investment in India

II. FDI AND ECONOMIC GROWTH

FDI in India goes way back with the establishment of East India Company of Britain. British capital entered India during the colonial era of Britishers in India. Japanese companies entered Indian market after second world war and boosted their trade with India, but Britain was the most dominant investor in India. Also the policy makers in India after independence gave importance to foreign capital and MNCs. FDI policy was then designed keeping in view the National interest. FDI policy has been changing since then keeping in mind the changing economic and political conditions. In 1965,industrial policy permitted MNCs to venture through technical collaboration in India. This led the government to allow more liberal policy towards frequent equity inflows. Further Indian government with the help of IMF and World Bank introduced many structural reforms. Thus the route for FDI inflows opened in India.

FIPB (*Foreign Investment Promotion Board*) was constituted by Government of India to facilitate FDI.India was projected as the second most important FDI destination (*after China*) fortransnational corporations during 2010-2012 in a recent survey done by UNCTAD. The sectors like services, telecommunication, construction activities and computer software and hardware attracted FDI the most. FDI inflows in India have majorly come from Mauritius, Singapore, the US and the UK. According to *GYANPRATHA – ACCMAN* (Journal *of Management, Volume 5Issue 1, 2013*) FDI was lower by 5% for 2009-10 at US$ 25.88 billion than US$ 27.33 billion in the previous fiscal. FDI dipped in August around 60 per cent to approx. US$ 34 billion, which was lowest in 2010 fiscal. In the first two months of 2010-11, FDI inflow in India was at all time high of $7.78 billion. FDI norms in 2013 in many sectors, including telecom, defence, PSU oil refinaries, power exchange and stock exchanges were relaxed.

UK-based Tesco in retail wanted to invest US$ 110 million to start up a supermarket chain in collaboration with Tata Group's Trent. In civil aviation, Air Asia and Singapore Airlines teamed up along with Tata Group to launch new airline services. Also Etihad, Abu Dhabi-based took up 24 per cent stakein Jet Airways worth over Rs 2, 000 crores. Total foreign investment that india received is US$ 306.88 billion since 2000 with 94 per cent inflows during last nine years. Between 1999-2004India received US$19.5 billion of foreign investments. In the period 2004–09, foreign investment in India touched US$ 114.55 billion, which further increased to US$ 172.82 billion between 2009–2013. India attracted FDI worth US$ 22.42 billion during 2013-14. The biggest beneficiaries were tourism, pharmaceutical, services, chemical and construction The January–November period in 2014 saw mergers and acquisitions deals worth US $ 26.76 billion.

III. LITERATURE REVIEW

Agarwal and Khan the study on "Impact of FDI on GDP: A Comparative Study of China and India", the study showed that if there is1% increase in FDI there would be 0.07%increase in GDP of China and 0.02% increase in GDP of India.It also stated that China's growth unlike that of India is more affected by FDI.

Kumar and Karthika in their study on "Sectoral Performance through Inflows of Foreign Direct Investment (FDI)", stated that Foreign Direct Investment plays a mojor role in the economic progress of the host country. Most of the countries are making use of foreign investment and technology to Speed up the pace of their economic growth. FDI helps in accelerating domestic capital, level of production and employment opportunities in developing countries, which results in a major leap towards the economic development of the country

Balasubramanyam and Sapsford in the article "Does India need a lot more FDI" compared the FDI inflows levels in India and China, and stated that FDI in India is one

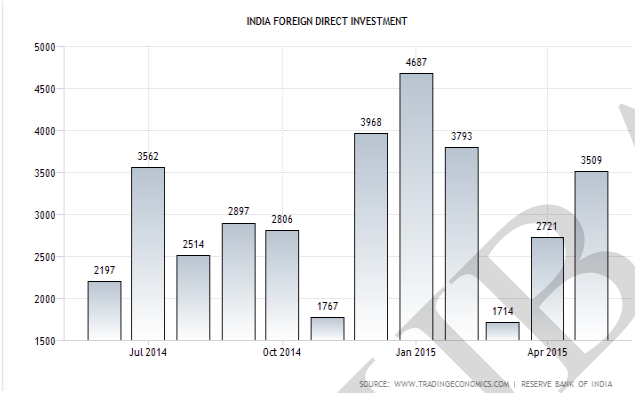
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tenth of the FDI of china. The paper established that India does not require increased FDI because of the structure and composition of its manufacturing, service sectors and her benefactions of human capital. Also the country is in a place to unbundle the FDI package effectively and rely on other sources for its capital requirements.

Bajpai and Jeffrey in the paper on "Foreign Direct Investment in India: Issues and Problems", was to identify the problems associated with India's latest FDI regimes, and the other related factors responsible for making India unattractive as an investment hub. India despite of offering a huge domestic market, eforced law, low labour costs, and a good democracy, Its Performance in attracting FDI inflows have been unsatisfactory. The study concludes That due to restricted FDI regime, high tariffs on import , exit barriers, strict labor laws, poor infrastructure, centralized decision making and limited scope of export zones make India an unattractive investment hub.

IV. INDIAN FDI

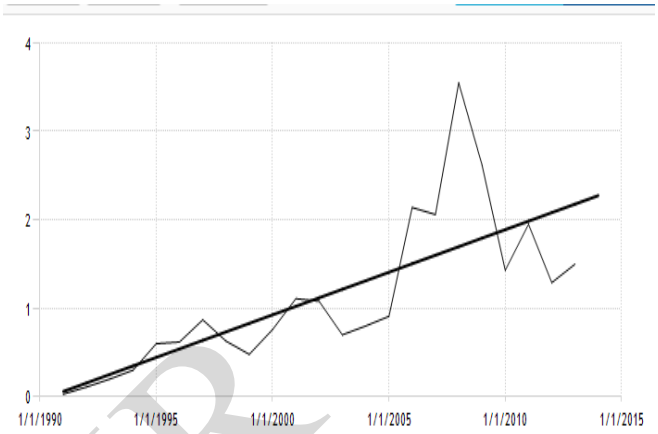
FDI in India has increased to USD$3509 million in May from USD$ 2721 Million in April 2015. In India FDI averaged USD$1076.20 Million from 1995 till 2015, reaching an all time high of USD$5670 million in Feburary 2008 and a record low of -60 USD Million in Feburary 2014



V. FDI AND GDP IN INDIA

Foreign direct investment in India as a % of GDP was measured at 1.50 in 2013, according to the World Bank. Foreign direct investment are the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments. This series shows net inflows (new investment inflows less disinvestment) in the reporting economy from foreign investors, and is divided by GDP.

India had showed a large amount of FDI inflow. It showed that FDI inflow has been increased by more than 210 times during the study period because the FDI Inflow has been increased from Rs. 409 crore in 1991-92 to Rs. 173947 crore in 2011-2012. Due to technological upgradation, access to global managerial skills and practices, optimal utilization of human and natural resources, making Indian industry internationally competitive, opening up export markets,providing backward forward linkages and access to international quality goods and services the Indian Government has used many steps to attract more FDI



VI. FUTURE OUTLOOK:

India is estimated to require around US$ 1 trillion during the 12th Five-Year Plan period (2012–17), to fund infrastructure in sectors such as roads, airports and ports. The government is in the process of liberalising FDI norms in construction activities and railways, which could bring in investments to meet the target. The government is also relaxing FDI norms in other sectors for foreign investors to invest. FDI in multi-brand retail has been allowed up to 51 per cent. The minimum requirement for the FDI is US$ 100 million, of which at least 50 per cent must be invested in 'backend infrastructure' within three years following the initiation of the FDI. FDI limit in single-brand retail has been increased to 100 per cent; 49 per cent will be under the automatic route and the rest through the FIPB route.

VII. CONCLUSION

India's Foreign Direct Investment (FDI) policy has been liberalised gradually which has made the Indian markets more investor friendly. The results have been reassuring. Now a days, the country is ranked regularly among the top three global investment destinations by all the international bodies like the World Bank, according to a United Nations (UN) report. FDI has impacted the Indian economy positively proving India has tremendous potential.

FDI inflow increments domestic capital and also technology and skills of existing companies. It also helps to start new companies. All of these factors contribute to economic growth and wellbeing of the Indian Economy.

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