FDI Trend in India after Independence

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One of the most striking developments during the last two decades is the spectacular growth of FDI in the global economic landscape. This unprecedented growth of global FDI in 1990 around the world make FDI an important and vital component of development strategy in both developed and developing nations and policies are designed in order to stimulate inward flows. Infact, FDI provides a win – win situation to the host and the home countries. Both countries are directly interested in inviting FDI, because they benefit a lot from such type of investment. The 'home' countries want to take the advantage of the vast markets opened by industrial growth. On the other hand the 'host' countries want to acquire technological and managerial skills and supplement domestic savings and foreign exchange. Moreover, the paucity of all types of resources viz. financial, capital, entrepreneurship, technological know- how, skills and practices, access to markets- abroad- in their economic development, developing nations accepted FDI as a sole visible panacea for all their scarcities. Further, the integration of global financial markets paves ways to this explosive growth of FDI around the globe.

FDI INFLOWS IN INDIA

Amount of FDI	**Mid 1948**	**March 1964**	**March 1974**	**March 1980**	**March 1990**	**March 2000**	**March 2010**
In crores	**256**	**565.5**	**916**	**933.2**	**2705**	**18486**	**1,23,378**

(from 1948-2010)

OBJECTIVES

The study covers the following objectives:

1. To study the trends and patterns of flow of FDI.
2. To assess the determinants of FDI inflows.
3. To evaluate the impact of FDI on the Economy.
4. To know the flow of increasing FDI in India,
5. To know the contribution of different countries in India.

Review of Literature

Nayak D.N46 (2004) in his paper "**Canadian Foreign Direct Investment in India**: Some Observations", analyse the patterns and trends of Canadian FDI in India. He finds out that India does not figure very much in the investment plans of Canadian firms. The reasons for the same is the indifferent attitude of Canadians towards India and lack of information of investment opportunities in India are the important contributing factor for such an unhealthy trends in economic relation between India and Canada. He suggested some measures such as publishing of regular documents like newsletter that would highlight opportunities in India and a detailed focus on India's area of strength so that Canadian firms could come forward and discuss their areas of expertise would got long way in enhancing Canadian FDI in India.

Balasubramanyam V.N Sapsford David4 (2007) in their article **" Do es Indi a need a l o t mo re FDI"** compares the levels of FDI inflows in India and China, and found that FDI in India is one tenth of that of china. The paper also finds that India may not require increased FDI because of the structure and composition of India's manufacturing, service sectors and her endowments of human capital. The requirements of managerial and organizational skills of these industries are much lower than that of labour intensive industries such as those in China. Also, India has a large pool of well – Trained engineers and scientists capable of adapting and restructuring imported know – how to suit local factor and product market condition all of these factors promote effective spillovers of technology and know- how from foreign firms to locally own firms. The optimum level of FDI, which generates substantial spill overs, enhances learning on the job, and contributes to the growth of productivity, is likely to be much lower in India than in other developing countries including China. The country may need much larger volumes of FDI than it currently attracts if it were to attain growth rates in excess of 10 per cent per annum. Finally, they conclude that the country is now in a position to unbundle the FDI package effectively and rely on sources other than FDI for its requirements of capital.

Naga Raj R45 (2003) in his article **" Fo reig n Di rect Inv es tment in I ndia in the 1990s**: Trends and Issues" discusses the trends in FDI in India in the 1990s and compare them with China. The study raises some issues on the effects of the recent investments on the domestic economy. Based on the analytical discussion and comparative experience, the study concludes by suggesting a realistic foreign investment policy.

Morris Sebastian44 (1999) in his study "Foreign Direct Investment from India:
1964-83" studied the features of Indian FDI and the nature and mode of control exercised by Indians and firms abroad, the causal factors that underlie Indian FDI and their specific strengths and weaknesses using data from government files. To this effect, 14 case studies of firms in the textiles, paper, light machinery, consumer durables and oil industry in Kenya and South East Asia are presented. This study concludes that the indigenous private corporate sector is the major source of investments. The current regime of tariff and narrow export policy are other reasons that have motivated market seeking FDI. Resources seeking FDI has started to constitute a substantial portion of FDI from India. Neither the "advantage concept" of Kindlebrger, nor the concept of large oligopolies trying to retain their technological and monopoly power internationally of Hymer and Vaitsos are relevant in understanding Indian FDI, and hence are not truly general forces

that underlie FDI. The only truly general force is the inexorable push of capital to seek markets, whether through exports or when conditions at home put a brake on accumulation and condition abroad permit its continuation.

Nirupam Bajpai and Jeffrey D. Sachs47 (2006) in their paper **"Fo reig n Di rect Investment in I ndi a: I ss ues a nd Pro bl ems"**, attempted to identify the issues and problems associated with India's current FDI regimes, and more importantly the other associated factors responsible for India's unattractiveness as an investment location. Despite India offering a large domestic market, rule of law, low labour costs, and a well working democracy, her performance in attracting FDI flows have been far from satisfactory.

The conclusion of the study is that a restricted FDI regime, high import tariffs, exit barriers for firms, stringent labor laws, poor quality infrastructure, centralized decision making processes, and a very limited scale of export processing zones make India an unattractive investment location.

Kulwinder Singh38 (2005) in his study **"Fo reig n Direct Investment in India: A Critical analysis of FDI from 1991-20 05"** explores the uneven beginnings of FDI, in India and examines the developments (economic and political) relating to the trends in two sectors: industry and infrastructure. The study concludes that the impact of the reforms in India on the policy environment for FDI presents a mixed picture. The industrial reforms have gone far, though they need to be supplemented by more infrastructure reforms, which are a critical missing link.

Chandan Chakraborty, Peter Nunnenkamp8 (2004) in their study **"Eco no mi c Refo rms , FDI and i ts Econo mi c Effects in India"** assess the growth implications of FDI in India by subjecting industry – specific FDI and output data to Granger causality tests within a panel co -integration framework. It turns out that the growth effects of FDI vary widely across sectors. FDI stocks and output are mutually reinforcing in the manufacturing sector. In sharp contrast, any causal relationship is absent in the primary sector. Most strikingly, the study finds only transitory effects of

FDI on output in the service sector, which attracted the bulk of FDI in the post – reform era. These differences in the FDI – Growth relationship suggest that FDI is unlikely to work wonders in India if only remaining regulations were relaxed and still more industries opened up o FDI.

Basu P., Nayak N.C, Vani Archana5 (2007) in their paper **" Fo rei g n Di rect I nves tment i n I ndi a : Emerg i ng Ho ri zo n"**, intends to study the qualitative shift in the FDI inflows in India in – depth in the last fourteen odd years as the bold new policy on economic front makes the country progress in both quantity and the way country attracted FDI. It reveals that the country is not only cost – effective but also hot destination for R&D activities. The study also finds out that R&D as a significant determining factor for FDI inflows for most of the industries in India. The software industry is showing intensive R&D activity, which has to be channelized in the form of export promotion for penetration in the new markets. The study also reveals strong negative influence of corporate tax on FDI inflows.

To sum up, it can be said that large domestic market, cheap labour, human capital, are the main determinants of FDI inflows to India, however, its stringent labour laws, poor quality infrastructure, centralize decision making processes, and a vary limited numbers of SEZs make India an unattractive investment location.

Guruswamy Mohan, Sharma Kamal, Mohanty Jeevan Prakash, Korah Thomas J.26 (2005) in their paper, **" FDI in I ndia 's Reta il Secto r:" More Ba d tha n Goo d"**, find that retail in India is severely constrained by limited availability of bank finance, dislocation of labor. The study suggests suitable measures like need for setting up of national commission to study the problems of the retail sector and to evolve policies that will enable it to cope with FDI. The study concludes that the entry of FDI in India's retailing sector is inevitable. However, with the instruments of public policy in its hands, the government can slow down the process. The government can try to ensure that the domestic and foreign players are more or less on an equal footing and that the domestic traders are not at a special disadvantage. The small retailers must be given the opportunity to provide more personalized service, so that their higher costs are taken advantage of by large supermarkets and hypermarkets.

Guruswamy Mohan, Sharma Kamal, Mohanty Jeevan Prakash, Korah Thomas J.26 (2005) in their paper **, " FDI in I ndia 's Reta il Secto r:"** More Bad than Good", find that retail in India is severely constrained by limited availability of bank finance, dislocation of labor. The study suggests suitable measures like need for setting up of national commission to study the problems of the retail sector and to evolve policies that will enable it to cope with FDI. The study concludes that the entry of FDI in India's retailing sector is inevitable. However, with the instruments of public policy in its hands, the government can slow down the process. The government can try to ensure that the domestic and foreign players are more or less on an equal footing and that the domestic traders are not at a special disadvantage. The small retailers must be given the opportunity to provide more personalized service, so that their higher costs are taken advantage of by large supermarkets and hyper mark.

Current FDI

India has attracted reaching US $208.99 billion foreign direct investment (FDI) during April 2014 to December 2017 period.

Routes

There are two routes by which India gets FDI.

- Automatic route: By this route FDI is allowed without prior approval by Government or Reserve Bank of India.
- Government route: Prior approval by government is needed via this route. The application needs to be made through Foreign Investment Facilitation Portal, which will facilitate single window clearance of FDI application under Approval Route. The application will be forwarded to the respective ministries which will act on the application as per the standard operating procedure. Foreign Investment Promotion Board (FIPB) which was the responsible agency to oversee this route was abolished on May 24, 2017. It held its last meeting on 17th April, which was the 245th meeting of the Board

Government initiatives

The Government of India has amended FDI policy to increase FDI inflow. In 2014, the government increased foreign investment upper limit from 26% to 49% in insurance sector. It also launched Make in India initiative in September 2014 under which FDI policy for 25 sectors was liberalised further. As of April 2015, FDI inflow in India increased by 48% since the launch of "Make in India" initiative.

India was ranking 15th in the world in 2013 in terms of FDI inflow, it rose up to 9th position in 2014 while in 2015 India became top destination for foreign direct investment.

Sectors

During 2014–15, India received most of its FDI from Mauritius, Singapore, Netherlands, Japan and the US. On 25 September 2014, Government of India launched Make in India initiative in which policy statement on 25 sectors were released with relaxed norms on each sector. Following are some of major sectors for Foreign Direct Investment.

Infrastructure

10% of India's GDP is based on construction activity. Indian government has invested $1 trillion on infrastructure from 2012–2017. 40% of this $1 trillion had to be funded by private sector. 100% FDI under automatic route is permitted in construction sector for cities and townships.

Automotive

FDI in automotive sector was increased by 89% between April 2014 to February 2015. India is 7th largest producer of vehicles in the world with 17.5 million vehicles annually. 100% FDI is permitted in this sector via automatic route. Automobiles shares 7% of the India's GDP.

Manufacturing

India is making progress turning itself into a magnet for manufacturers, the aim being to increase the share of manufacturing in India's GDP from a stagnant 15-16% since 1980 to 25% by 2022 and create an additional 100 million jobs. Electronics contributes to India's success in manufacturing but some challenges remain with foreign direct investment.

Pharmaceuticals

Indian pharmaceutical market is 3rd largest in terms of volume and 13th largest in terms of value. Indian pharma industry is expected to grow at 20% compound annual growth rate from 2015 to 2020.] 100% FDI is permitted in this sector.

Service

FDI in service sector was increased by 46% in 2014–15 .It is US $ 1.88Bl in 2017. Service sector includes banking, insurance, outsourcing, research & development, courier and technology testing. FDI limit in insurance sector was raised from 26% to 49% in 2014.

Railways

100% FDI is allowed under automatic route in most of areas of railway, other than the operations, like High speed train, railway electrification, passenger terminal, mass rapid transport systems etc. Mumbai-Ahemdabad high speed corridor project is single largest railway project in India, other being CSTM-Panvel suburban corridor. Foreign investment more than ₹90,000 crore (US$14 billion) is expected in these projects.

Chemicals

Chemical industry of India earned revenue of $155–160 billion in 2013. 100% FDI is allowed in Chemical sector under automatic route. Except Hydrocynic acid, Phosgene, Isocynates and their derivatives, production of all other chemicals is de-licensed in India. India's share in global specialty chemical industry is expected to rise from 2.8% in 2013 to 6–7% in 2023.

Textile

Textile is one major contributor to India's export. Nearly 11% of India's total export is textile. This sector has attracted about $1647 million from April 2000 to May 2015. 100% FDI is allowed under automatic route. During year 2013–14, FDI in textile sector was increased by 91%. Indian textile industry is expected reach up to $141 billion till 2021.

Airlines

Foreigner investment in a scheduled or regional air transport service or domestic scheduled passenger airline is permitted to 100 with FDI up to 49% permitted under automatic route and beyond 49% through goor existing airport under automatic route.

CONCLUSIONS

 It is found that bigger diversity of types of FDI lead to more diverse types o Spill overs and skill transfers which proves more favourable for the host economy.

 It is also found that apart from market size, exports, infrastructure facilities, institutions, source and destination countries, the concept of neighbourhood and extended neighbourhood is also gaining importance especially in India.

 Studies which underlie the effects of FDI on the host countries economic growth shows that FDI enhance economic growth in developing economies but not in developed economies. It is found that in developing economies FDI and economic growth are mutually supporting. In other words economic growth increases the size of the host country market and strengthens the incentives for market seeking FDI. It is also observed that bidirectional causality exist between FDI and economic growth i.e. growth in GDP attracts FDI and FDI also contributes to an increase in output.

 Studies on role of FDI in emerging economies shows that general institutional framework, effectiveness of public sector administration and the availability of infrastructural facilities enhance FDI inflows to these nations. FDI also enhance the chances of developing internationally competitive business clusters

 It is observed that countries pursuing export – led growth strategies reaps enormous benefits from FDI.

 The main determinants of FDI in developing countries are inflation, infrastructural facilities, debts, burden, exchange rate, FDI spillovers, stable political environment etc.

 It is found that firms in cluster gain significantly from FDI in their region, within industry and across other industries in the region.

 It is also observed that FDI have both short – run and long – run effect on the economy. So, regulatory FDI guidelines must be formulated in order to
protect developing economies from the consequences of FDI flows

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