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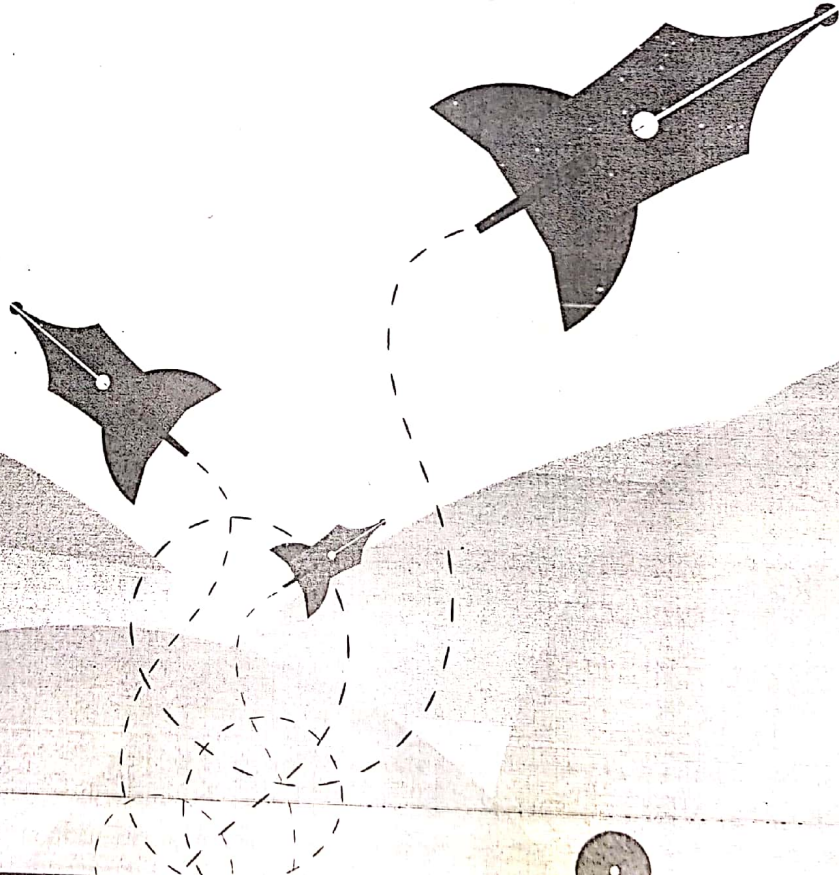
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A REVIEW OF FOREIGN DIRECT INVESTMENT IN INDIA

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ABSTRACT

Indian economy is one of the most significantly developing economy in the world market. In India, the journey of attracting foreign investment was started in 1991 with the New Economic Policy, and it had achieved unbelievable level of Foreign Direct Investment (FDI) in 2000. The announcement of New Industrial Policy, results in acceleration of foreign inflows in India. Foreign companies were got attracted to India, to take advantages of liberalization policy decision. Such Foreign Direct Investment plays vital role in the economic development of any country. Many countries have used it as a stimulating agent for economic growth and development. The paper focuses on review of secondary data based on sector wise inflow of FDI in India from the financial year 2000-01 to 2019-20. The paper also aims to review the performance of FDI in India.

Keyword: Foreign Direct Investment, sectors.

Introduction:

The investment of one country into another country, generally by companies, which involves installing operations of acquiring assets etc. can be termed as Foreign Direct Investment (FDI). Such Investments has played an important role in the process of economic transformation of many countries. FDI can brought tremendous economic growth and development. Many countries have used FDI as a catalytic agent for stimulating economic growth and development. In India a new chapter was opened in the history of Indian economy with a step of 'Liberalization Privatization and Globalization', in 1991 and Indian economy was

become opened for foreign investors. After the announcement of New Industrial Policy (1991) there has been an acceleration in the inflow of foreign capital in India. Foreign investors were got attracted to India after liberalization decision. Foreign companies invest in India to take advantage of comparatively cheap wages, special privileges for investment such as tax exemptions. A country which gains foreign investment are achieving technical know-how and generating employment. FDI is a major source of financial resource which is significant for the economic development of India. In India, FDI is the major source for economic development. Foreign companies invest directly in Indian businesses to

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take benefits of cheap wages and growing business environment of India. The Government of India has amended FDI policy and also launched Make in India initiative. The government has also liberalized and simplified the foreign direct investment (FDI) policy in sectors like defense, railway infrastructure, construction and pharmaceuticals. Hence, to study the performance of Foreign Direct Investment and to make a review of the FDI in India the present study was undertaken.

The present paper focuses on the secondary data based on sector wise inflows, and the changing trends of Foreign Direct Investment in India. The paper also aims to review the Foreign Direct Investment in India.

Review of Literature:

Foreign Investments can play an important role in the process of economic transformation of any country. It can brought tremendous economic growth and development. Countries can use FDI as a stimulating agent for economic growth and development. Dr. Singh S. (2019) had reviewed Foreign Direct Investment Inflows with a note, that the recent changes in FDI policy regime of 2017 by GOI has helped to remove multiple of bottlenecks faced by foreign investor. The investment process have been rationalized and expedited.¹ Mathur Vibha reveals in her book that, foreign investment is India has grown substantially in last decade following the liberalization of Indian economy in 1991. Certain booming sectors of our economy, especially the infrastructure have attracted considerable attention.² Union Budget 2016-17 concludes as- 'India's services sector which showed resilient growth after the recovery of global economy following the global financial

crisis, has been showing subdued performance in recent times. Despite the slowdown the prospects continue to be bright for many segments of the sector.'³ 'Foreign investment is the investment made by an investor of one country in another country. It is also named as cross border investment. FDI is an investment directly in the trade of manufacture of growth of providing services in some other country as described by Dr. Govilkar V.M.⁴ Foreign direct investment benefits the world economy, as well as investors and recipients. 'If a backward and underdeveloped country is interested in rapid economic development, it will have to import machinery, technical know-how, spare parts and even raw materials. For getting foreign technology and equipment is to depend upon foreign assistance in some form of the other'⁵ it indicates the erg of foreign assistance through foreign investment in the book 'Indian Economy' by Datta g. and Mahajan A. After appraising critically FDI inflows in their book 'Indian Economy', Puri v. k. and Mishra S. K. clears that, 'considering the sectoral composition of FDI over the period Jan 2000 to April 2008, one finds that the largest recipient of such investment was the service sector.'⁶ Iqbal Badar Alam has recognized FDI in his book as 'in the process of globalizing the Indian economy, the four vital facets are required such as investment, technology, managerial expertise and new techniques of marketing. Foreign Direct Investment means the inflows of investment of private nature with a desire to control over it'⁷

Objectives:

1. To study Foreign Direct Investment equity inflows in India

2. To study the trend of Foreign Direct Investment in India in last 20 years (i.e. from financial year 2000-01 to 2019-20.)
3. To study contribution of Foreign Direct Investment in various sectors in India.

Methodology:

The present study is based on secondary data of Foreign Direct Investment inflows in India, equity inflows, sector wise inflow of FDI. Hence various secondary sources like- RBI Bulletin, Department of Industrial Policy and Promotion (DIPP) publications, Economic survey, handbook of statistics of Indian Economy, National Sample Survey, Union Budget, Reports, Reference Books, Journals, Newspapers, Booklets, Internet, and other print media. As the study fully based on secondary data, the conclusions drawn are based on the data.

Foreign Direct Investment:

Foreign Direct Investment is an investment by any company directly in the trade of manufacture of goods or providing services in some other country. It is a cross border investment, where foreign assets are invested into the organizations of the domestic market excluding the investment in stock. Foreign Direct Investment is the investment from one country into another, generally by companies, that involves installing operations of acquiring assets etc. it also involves the purchase or investment in income-generating assets in foreign country. FDI is the outcome of the mutual interests of multinational (international) firms and host countries. FDI is generally recognized as a form of long term international capital movement,

made for the purpose of productive activity in foreign country and accompanied by the intention of managerial control of participation in the management of a foreign firm.

According to International Monetary Fund (IMF), 'defined Foreign Direct Investment (FDI) as, an investment that is made to acquire lasting interest in an enterprise operating in an economy other than that of the investor. The investor's purpose being to have an effective voice in the management of the enterprise.'⁸

Since 2000-01, the definition of Foreign Direct Investment has been revised and 'in India FDI was recorded under five heads,

- I) RBI automatic route
- II) SIA (Secretarial of Industrial Approvals discretionary route/ FIPB (Foreign Investment Promotion Board) route)
- III) Acquisition of shares route since 1996
- IV) RBIs non-resident Indian (N RI) Scheme
- V) External Commercial Borrowings (American Depository Receipts) Global Depository Receipts and EURO equities.'⁹

Foreign Direct Investment in India:

In India, the journey of attracting foreign investment was started in 1991 with the New Economic Policy, and it had achieved unbelievable level of Foreign Direct Investment (FDI) in 2000. Foreign direct investment allows an investor to exercise a certain managerial control over a company. To attract such foreign investments, Government of India has amended FDI policy and has launched Make in India initiatives. As a result of which we are receiving foreign funds in a large scale from

various countries. Foreign direct investment (FDI) is an investment made by a company or an individual or a country with the business interests in another country, in the form of either establishing business operations or acquiring business assets in the other country, such as

ownership or controlling interest in a foreign company¹⁰. We can observe the growth in foreign investment inflows to India in last two decades. It can also be observed in following Table 1.1

Table 1.1 : Year-wise Foreign Direct Investment Equity Inflows in India (As per DPII's FDI database –equity capital component only)

Sr. No.	Financial Year	FDI Inflows		%age growth over previous year (in terms of US \$)
		In Rs. Crores	In US\$ Million	
	Year 2000-01 to 2019-20			
1.	2000-01	10733	2463	--
2.	2001-02	18654	4065	65 %
3.	2002-03	12871	2705	-33 %
4.	2003-04	10064	2188	-19 %
5.	2004-05	14653	3219	47 %
6.	2005-06	24584	5540	72 %
7.	2006-07	56390	12492	125 %
8.	2007-08	98642	24575	97 %
9.	2008-09	142829	31396	28 %
10.	2009-10	123120	25834	-18 %
11.	2010-11	97320	21383	-17 %
12.	2011-12	165146	35121	64 %
13.	2012-13	121907	22423	-36 %
14.	2013-14	147518	24299	8 %
15.	2014-15	181682	29737	22 %
16.	2015-16	262322	40001	35 %
17.	2016-17	291696	43478	9 %
18.	2017-18	288889	44857	3 %
19.	2018-19	309867	44366	-1 %
20.	2019-20	353558	49977	13 %
Cumulative Total (From April 2000 to March 2020.)		2732444	470119	--

Source: compiled from Department of Industrial Policy & Promotion FDI factsheet database.

7	Germany	68944(12196)	3%
8	Cyprus	57993(10748)	2%
9	France	50511(8539)	2%
10	Cayman Islands	49848(7536)	2%
Total FDI Inflows (All Countries)*		2732444(470119)	--

Source: Department of Industrial Policy & Promotion, Ministry of Commerce & Industries,

India FDI Fact Sheet March 2020 (*includes inflows under NRI Schemes of RBI)

Table 1.2 indicates the ranks of the countries investing in India. These are the top ten countries out of which, Mauritius is on first position with Rs.795941 Crores (142710 US\$ Million) inflow, followed by Singapore with Rs.609562 Crores (97670 US\$ Million) inflow. Netherland and Japan stood third and fourth with 7 percent each of total inflow and U.S.A, U.K with 6 percent contribution each. The other contributors were Germany, Cyprus, France, Cayman Islands.

Sector wise Foreign Direct Investment Equity Inflows in India:

**Table 1.3 : Sector Attracting Highest Foreign Direct Investment Equity Inflows
(From April 2000 to March 2020)**

Amount Rs in crores (US \$ in million)

Rank	Sector	Cumulative Inflows (April 2000-March 2020)	Percentage to total Inflows (In terms of US \$)
1	Service Sector**	471730 (82003)	17 %
2	Computer Software & Hardware	276006 (44911)	10 %
3	Telecommunication	219189 (37271)	8 %
4	Trading	176005 (27595)	6 %
5	Construction-Development	129964 (25662)	5 %
6	Automobile Industry	143742 (24211)	5 %

7	Chemicals(other than Fertilizers)	98554 (17639)	4 %
8	Construction (Infrastructure) Activities	108383 (16847)	4 %
9	Drugs and Pharmaceutical Power	87814 (16501)	4 %
10	Hotel & Tourism	91779 (15289)	3 %

Source: i) Department of Industrial Policy & Promotion, Ministry of Commerce and Industry, 2020,

ii) Foreign Direct Investment Fact Sheet March 2020.

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

Table 1.3 shows the top ten sectors who attracts highest foreign direct investment equity inflows for the period from April 2000 to March 2020 (i.e.20 years). Service sector is on the first rank with Rs. 471730 crores (82003 US\$ Million) inflow, followed by Computer software and hardware with Rs.276006 Crores (44911 US\$ Million) are the highest fund gaining sectors. Service sector includes Financial, Banking, Insurance, Non-Financial/ Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis. The other sectors like Telecommunication, Trading, Construction, Automobile Industry, Chemicals, Construction (Infrastructure) Activities, Drugs & Pharmaceuticals and hotel tourism etc. records total 39 percent of FDI inflows.

Conclusion:

Foreign Direct Investment (FDI) is the major contributor in the process of economic transformation of many countries. Many countries have used FDI as a catalytic agent for stimulating economic growth and development.

Due to acceptance of liberalization policy in 1991 foreign investment in India has grown substantially in last two decades. Even the Indian Government has amended FDI policy and has launched Make in India initiatives. As a result of which, India attracts foreign funds in a large scale from various countries in last two decades. The foreign investment inflows registered an impressive increase in 2006-07 and 2007-08 i.e. Rs.56, 390 crores and Rs.98642crores respectively (Table 1.1). India attracted the maximum of its FDI from Mauritius, Singapore, Netherlands, Japan and the US. Mauritius accounted highest percentage of 30 percent of total FDI inflows (cumulative) in India (Table 1.2). As per Table 1.3, service sector is attracting highest FDI inflows i.e. 17%. From the above discussion we can conclude as FDI is a major contributor in bringing tremendous economic growth and development.

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