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## Foreign Direct Investment in India- (FDI): Trends and Insight

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### Abstract

After independence, Indian foreign trade has made cumulative progress both quantitatively and qualitatively. Though the size of foreign trade and its value both have increase during post independence era, this increase in foreign trade cannot be said satisfactory because Indian share in total foreign trade of the world have a remain remarkable low. In 1950 the Indian share in the total world trade was 1.78% which come down to 0.6% in 1995.

FDI being a non -dept capital flow is a leading source of external financing, especially for the developing economy. It not only being in capital and technical know-how but also increasing the competitiveness of the economy. Overall it supplements domestic investment, much required for sustaining the high growth rate of the country. Since 2000, significant changes have been made in the FDI policy resume by the government to ensure that India become an increasingly attractive and investor- friendly destination. In recent years, services, construction, telecommunications, computer, software and hardware, drugs and pharmaceuticals, automobiles industry, power metallurgical industries, and hotel and tourism are sector that have attracted maximum FDI inflows.

**Keywords:** Foreign Direct Investment (FDI), Economic Growth, Liberalization Policies, Sectoral Distribution, Investment Inflows, Make in India Initiative, Globalization, Ease of Doing Business

### Introduction

The government has introduced a number of policy measure to achieve an annual target of foreign investment worth dollar 10 billion. These are as follows- (1). 48 high priority industries of the country has been given the self approval facility for foreign equity investment up to 51%. Three industries related to mining and 9 others capital intensive infrastructural Industries have been permitted to have foreign equity of 50% and 74% respectively.

(2) NRIs have been granted investment permission with cent percent (100%) equity for repatriability in high priority industries.

(3) The condition of installing new machinery has also been removed for foreign capital investment.

(4) RBI has granted permission to foreign nationals of Indian Origin for acquiring housing assets without seeking priority permission of RBI.

(5). FERA condition where liberalise with effect from January 8, 1993 and later on FERA was replaced with FEMA.

(6) Foreign companies have been granted permission to use their trade marks for selling their commodities in India since may 14, 1992.

(7). The government has allowed foreign institutional investors to invest in Indian capital market. This permission will be applicable only if they are registered with SEBI and get approval under FERA from RBI.

(8). The government has signed the 13th April, 192 MIGA (Multilateral Investment Guarantee Agency) convention to is sure protection to foreign investors.

(9). The government has allowed all the industries except a few (only 6 Industries that is electronics, aerospace and defence, industrial, explosive and hazardous, chemical, medicine, alcoholic drink, cigarettes and cigar) where foreign direct investment can be made without approval from Foreign Investment Promotion Board.

### **Foreign Direct Investor:--**

A foreign direct investor is an entity (an institutional unit) resident in one economy that has acquire, either directly or indirectly, at least 10% of the voting power of a Corporation (enterprise) or equivalent for an unincorporated enterprise, resident in another economy. A direct investor could be classified to any sector of the economy and could be any of the

following:

- ° an individual.
- ° a group of related individuals.
- ° an incorporated or unincorporated enterprises.
- ° a public or private enterprise.
- ° a group of related interprises.
- ° a government body.
- ° an estimate, trust or other social organisation or any combination of the above.

In the case where two enterprises each own 10% or more of each other voting power, each is a direct investor in the others. 3

### **'Invest India' constituted to promote FDI.**

A joint company a public and private sector named 'Invest India' has been constituted for promoting foreign direct investment in the country. This company will provide investment information to foreign investors. This company will work on 'no profit no loos' basis. In its capital of Rs.10000 Crore, the government and FICCI have the share of 49: 51.

### **This company will work on three principals.**

- (1) to promote FDI in the country.
- (2) to provide processing facilities to foreign investors and act as coordinator among various Ministries.
- (3) to provide feedback to government on industrial policy.4.

**FDI Inflow in India:-** An investor -friendly FDI policy has been put in place, whereby FDI up 100% is permitted under the automatic route in most sectors / activities. In 2014, FDI policy has been further liberalised. FDI up to 49% through the government rout has been permitted in the defence industry. Higher FDI has also been allowed on a case- to- case basis. FDI up to 100% through the automatic route has been

permitted in construction, operation and maintenance of identified railway transport infrastructure., Norms related minimum land area, capitalisation and repatriation funds for FDI in construction development project have been further liberalized.

During April February 2014- 15 total FDI inflows (including equity inflow, reinvestment earning, and other capital) were US dollar 41. 22 billion, while FDI equity inflow were US dollar 28. 81 billion. Cumulative FDI inflow from April 2000 to February 2015 were US dollar 364.79 billion. Services, construction, telecommunication, computer software, and hardware, drugs and pharmaceuticals automobile industry, chemical and power have attracted a proportionately high share of total inflow.

### **India allow FDI from Pakistan :--**

For the first time in the history of Indo Park relations, India allowed foreign direct investment FDI from Pakistan through government rout, strengthening the bilateral relation even further. Till now, any investment from people residing in Pakistan or from a company based in Pakistan was not allowed. The decision has been implemented with immediate effects and accordingly the consolidated FDI policy effective from April 10, 2012 has also been amended. As per official announcement, government has allowed all sorts of investment from Pakistan without any limit on the quantum to be invested.

### **Mayaram panel recommended 9 sector for 49% FDI :--**

government had constituted a panal under the chairmanship of Mr. Arvind Mayaram for recommending the guideline to liberalised the country's foreign direct investment FDI policy. Committee in its report has identify 9 sector for mandatory Indian control with the ceiling of 49% FDI. These 9 sectors are: FM Radio uplinking news and current affair (i. broadcasting), print media, commodity exchange, stock exchange, along with depositories and clearing Corporation, power exchange, petroleum and natural gas refining, insurance, defence production and private security agencies

Committee also proposed to raise the FDI cap in airline 74%. This recommendation, if accepted will save the way for Jet Etihad deal. Committee recommended to project India's strategic interest in defence production and private security agencies as per final's recommendations, foreign investment in these sector will not be cleared through automatic rout and will be subject to FIPB scrutiny.

### **FDI norms further relaxed:--**

In a bid to boost the economy, the UPA government at the centre is giving top most priority to attract FDI in a big way. Union Cabinet approved a new slew of following relaxation in FDI policy:

° As a big relief to global retailers, the new policy measur allowed multi brand retailer to producer at least 30% of procurement value from Indian small industries with up to US \$2 million investment in plant and machinery. Earlier the limit was US Dollar 1 million.

° Small industry requirement only at the time of first engagement. Such Industries will qualify for Sourcing even if it outgrows investment of US \$2 million.

° States are free to decide on the city for the location of front- end stones irrespective of population. Earlier the limit was over 10 lacs population.

° a new definition of 'control' for calculating direct and indirect foreign investment in a company to avoid controversies, such as created by the proposed Jet Etihad deal

**Table--1.****FDI Inflows in India from 2001-2019**

<b>Sr.No</b>	<b>Years</b>	<b>Amount of FDI inflow (\$ billion)</b>
1	2000-01	2.46
2	2001-02	4.06
3	2002-03	2.70
4	2003-04	8.18
5	2004-05	3.21
6	2005-06	5.53
7	2006-07	12.49
8	2007-08	24.57
9	2008-09	31.49
10	2009-10	25.83
11	2010-11	21.38
12	2011-12	35.18
13	2012-13	22.42
14	2013-14	24.29
15	2014-15	30.93
16	2015-16	40.00
17	2016-17	43.47
18	2017-18	44.82
19	2018-19	44.36

**Source:-UNCTAD annual report.**

In last 19 years it has been found that India is attracting FDI for a long period of time. The FDI inflow in India were 2.46 US dollar in 2000-01 but it has been found fluctuating till the year 2012-2013.

But after calculating the trend of FDI through least Square Method, it has been found that there is a positive growth in FDI in India in the last 19 years. The graphical representation shows an upward straight line representing an increasing trend of FDI from the year 2013-14 to 2018-19.

#### **State-Wise FDI Equity Inflow (USD Million)-**

The Following Table Reflects The FDI Equity Inflows Reported By The RBI Regional Offices, Which Indicate The Major States Receiving The Investments.

Table.

RBI Regional Office/State	2016-17 (USD Million)	2017-18 (USD Million)	2018-19 (USD Million)
Maharashtra (incl. Dadra & Nagar Haveli, Daman & Diu)	13,423	19,654	15,439
Delhi (incl. Part Of UP & Haryana)	5,884	12,743	7,656
Karnataka (incl. Bangalore)	2,132	4,121	8,575
Tamil Nadu (incl. Pondicherry)	2,218	4,528	3,475
Gujarat (incl. Ahmedabad)	3,367	2,244	2,091
Andhra Pradesh (incl. Hyderabad)	1,246	1,556	8,236
West Bengal (incl. Sikkim & Andaman)	332	955	1,409
Kerala (incl. Lakshadweep)	208	454	752
Rajasthan (incl. Jaipur)	272	189	707
Uttar Pradesh (incl. Uttarakhand)	421	243	321

**\*Note-** The High Figure For Andhra Pradesh In 2018-19 is largely Attributed to the Inclusion of the Hyderabad region in earlier reporting metrics before Telangana was fully bifurcated in all data sets, or significant re-categorization in that year.

#### Findings:-

After analysing data collected following important findings have been developed:

- ° India is attracting FDI for long period of time but it is founding fluctuating.
- ° There is a positive growth in FDI in last 19 years as per trends calculation .
- ° FDI will continue to inch upward as a trends has been forecasted for the upcoming year till 2018-19 .
- ° Maharashtra is most dominated destination of FDI followed by Karnataka, Gujarat, Delhi and Tamil Nadu

**Recommendation:--**

- ° It is recommended that current lock in restriction should be removed so as to permit FDI in different countries.
- ° The government should identify highly competitive sectors of economy to ascertain export growth areas in the continuously involving dynamic world.
- ° A conclusive business environment is required to attract FDI flow by providing better infrastructure hassle-free government procedures and most importantly, a degree of autonomy and freedom in various decision making process.
- ° It is essential that India adopts and implements the concepts like export processing zones, free trade zones, and special economic zones which provide free market environment to achieve export promotion objectives .

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