ISSN 2250-3153

# Foreign Direct Investment, the Indian scenario

**Dr.M.Shahul Hameedu M.Com, MBA, PGDHRM, Ph.D**

Associate Professor, Iqbal College, Peringammala. Thiruvananthapuram,Kerala, India

***Abstract-*** Globalization and liberalisation brings lots of new innovative products to the world, Foreign Direct Investment is the one among this, also there are number of different forms of FDI is available currently. Recently, Government of India allowed FDI in different sectors of Indian economy. But several opposition parties are making it a political issue in parliament on these policy decisions and amendments. With a view to infuse globally acceptable best practices, modern management skills and latest technology, it has been decided to allow foreign investment in India. The objective of the present study is to provide a skeleton on foreign direct investment with the scene of different sectors. It also point out the sector-wise distribution of FDI inflow to know about which has concerned with the chief share. The present study is based on secondary data collected from different sources. This paper also tries to find out the scenario and role and Scope of Foreign Direct Investment in India.

***Index Terms***- foreign direct investment; economic growth, economic development, dynamic growth.

## I. Introduction

The role of foreign direct investment (FDI) in stimulating economic growth is one of the controversial issues in the development literature. The great promise of foreign direct investment (FDI) by multinational corporations is that capital will stimulate dynamic growth. Beyond boosting income and employment, the hope is that manufacturing FDI will bring knowledge that indirectly effect in building skill and technological capacities of local firms, catalysing broad-based economic growth. The part played by foreign direct investment (FDI) in the development process has undergone several changes. In the 1960s, FDI was seen in most countries as a partner in the development endeavours. India adopted a regime that was perceived to be restrictive towards FDI. .Explicit curbs on foreign investment were imposed through the introduction of the Foreign Exchange Regulation Act (FERA) in 1973 by restricting foreign ownership of shares in enterprises incorporated in India. At the same time, foreign firms operating in India were subjected to "local content" and "foreign exchange balancing" rules that curbed their freedom of operation. The Industrial Licensing System under the Industries Development and Regulation Act, 1951 and the Monopolies and Restrictive Trade Practices Act, 1969 sought to channelize their activities into high technology and export-oriented production.

The limits on foreign shares fostered joint ventures with Indian entrepreneurs. These policies continued until the policy of creeping liberalisation of the Indian economy was initiated in the 1980s. The fast-tracked liberalisation of the Indian economy introduced in 1991 brought with it a radical shift in the policy towards FDI. In fact, FDI policy reform formed part of the first package of industrial reforms in July 1991 and was reflected in the Industrial Policy announced in 1991.

Foreign investment would bring associated advantages of technology transfer, marketing expertise, introduction of modern managerial techniques and new possibilities for promotion of exports. The government will therefore welcome foreign investment which is in the interest of the country's industrial development.

FDI is considered to be the most attractive type of capital flow for emerging economies as it is expected to bring latest technology and enhance production capabilities of the economy. Foreign investments mean both foreign portfolio investments and foreign direct investments (FDI). FDI brings better technology and management, access to marketing networks and offers competition, the latter helping Indian companies improve, quite apart from being good for consumers. This efficiency contribution of FDI is much more important.

The changes in the sentiments towards FDI were given effect to in the form of a series of changes in the policies. These included removing the ceilings on foreign equity imposed by the FERA, lifting of restrictions on the use of foreign brand names in the domestic market, removing restrictions on entry and expansion of foreign direct investment into consumer goods, abandoning the "local content" and "foreign exchange balancing" rules, among others. The parallel process of virtual withdrawal of the Industrial Licensing System and the retreating from the primacy given to public sector also enhanced the scope for FDI participation in India. Together with liberalizing the FDI regime, steps were taken to allow foreign portfolio investments into the Indian stock market through the mechanism of foreign institutional investors. The objective was not only to facilitate non- debt creating foreign capital inflows but also to develop the stock market in India's FDI Inflows: lower the cost of capital for Indian enterprises and indirectly improve corporate governance structures. On their part, large Indian companies have been allowed to raise capital directly from international capital markets through commercial borrowings and depository receipts having underlying Indian equity. Thus, the country adopted a two-pronged strategy: one to attract FDI and to encourage portfolio capital flows which ease the financing constraints of Indian enterprises. As a result of the above-mentioned policy changes, India now follows an FDI-friendly regime that is quite comparable to that adopted by most countries.

Much of the foreign investment can now take advantage of the automatic approval route without seeking prior permission of the Central Government. Caps on FDI shareholding are now applied to only a few sectors, mainly in the services sector. Simultaneous steps have also been taken to remove the hurdles in the path of foreign investors both at the stage of entry and later in the process of establishing the venture. The policy changes were thus aimed at improving India's record in attracting FDI inflows, which was seen to be below its potential, particularly when compared with the massive inflows reported by other countries.

Following the commercial bank debt crisis and the aid fatigue, in the 1980s, FDI became the preferred source once again, as countries became more attracted towards non-debt creating sources of external private finance .Since then; more attention is being paid to the possible role of FDI in economic development. An extensive amount of literature on FDI has emerged regarding its role in not just augmenting domestic savings for investment but more as provider of technologies and managerial skills essential for a developing country to achieve rapid economic development.

Now Government of India allowed FDI (Foreign Direct Investment) in different sectors of economy. FDI includes mergers and acquisitions, building new facilities reinvesting profits earned from overseas operations and intra company loans. FDI is in dissimilarities to portfolio investment which is a passive investment in the securities of another country such as stocks and bonds. FDI is defined as the net inflows of investment to acquire a lasting management interest in an enterprise operating in an economy other than that of the investor. As per the data, the sectors that attracted higher inflows were services, telecommunication, construction activities and computer software and hardware. On 14 September 2012, Government of India allowed FDI in aviation up to 49%, in the broadcast sector up to 74%, in multi-brand retail up to 100%, the choice of allowing FDI in Multi-brand retailing up to 51% has been left to each state.

## II. Review of Literature

Agarwal and Khanin (2011) in their the study found that 1% increase in FDI would result in 0.07%increase in GDP of China and 0.02% increase in GDP of India. We also found that China's growth is more affected by FDI, than India's growth. Kumar and Karthika (2010) found out in their study that Foreign Direct Investment has a major role to play in the economic development of the host country. Most of the countries have been making use of foreign investment and foreign technology to accelerate the pace of their economic growth. FDI ensures a huge amount of domestic capital, production level and employment opportunities in the developing countries, which a major step towards the economic growth of the country.

Singh (2009) stated in their study that foreign direct investment (FDI) policies play a major role in the economic growth of developing countries around the world. Attracting FDI inflows with conductive policies has therefore become a key battleground in the emerging markets. The paper highlighted the trend of FDI in India after the sector-wise economic reforms. Devajit (2012) conducted the study to find out the impact of foreign direct investments on Indian economy and concluded that Foreign Direct Investment (FDI) as a strategic component of investment is needed by India for its sustained economic growth and development through creation of jobs, expansion of existing manufacturing industries, short and long term project in the field of healthcare, education, research and development.

Balasubramanyam and Sapsford (2007 stated in their article "Does India need a lot more FDI" compared 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 concluded 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 and the country is in a position to unbundle the FDI package effectively and rely on sources other than FDI for its capital requirements .Bajpai and Jeffrey(2006) stated attempted the paper on "Foreign Direct Investment in India: Issues and Problems", to identify the issues and problems associated with India's current FDI regimes, and also 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. Chien and Zhang(2012) focused in their study the problems related to FDI in the North Central Area and South Central Area of Vietnam in the period 2000-2010. The paper found out that FDI and GDP have close relationship with each other. Both FDI and GDP have contributed importantly and positively in the interpretation of each other in the provinces having extremely difficult socio- economic conditions, but this is especially true in localities with better socio-economic conditions.

Sharma Reetu and Khurana Nikita (2013) in their study on the sector-wise distribution of FDI inflow to know about which has concerned with the chief share, used a data from 1991-92 to 2011-2012 (post-liberalization period). This paper also discusses the various problems about the foreign direct investment and suggests the some recommendations for the same. In this study found that, Indian economy is mostly based on agriculture. So, there is a most important scope of agriculture services. Therefore, the foreign direct investment in this sector should be encouraged.

The trends in foreign investment flows into India may be classified as Foreign Direct Investment and Portfolio Investment (FII). FDI refers to 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 the investor. Foreign Institutional Investment refers to the outside companies investing in the financial markets of India. International Institutional investors must register with the Securities Exchange Board of India to participate in the market. FDI in Indian business sectors can easily be made in a variety of ways, through the Governmental and Automatic routes.

Recently in 2012, the Industry Ministry came out with a consolidated Foreign Direct Investment (FDI) document incorporating significant changes in the FDI norms by permitting foreign institutional investors. According to a notification issued by the Department of Industrial Policy and Promotion's (DIPP's) on consolidated FDI policy, the government has decided to liberalise the policy. DIPP also announced that the consolidated FDI circular will be announced every year instead of six monthly bases. The next policy will be on March 29, 2013. The policy also clarified that subject to the sectorial foreign holding cap, companies will now need prior permission from Reserve bank of India (RBI) for an overall FII holding of beyond 24 per cent. After RBI permission, the companies can allow FIIs to hold more than 24 per cent after the approval for the same by their boards and shareholders. Thus this paper attempts to analyze the trend of FDI in various sectors in India.

## III. Objectives and Methodology

The data required for this study were collected from various published sources and the specific objectives are:
•To access the sector-wise foreign direct investment in India.
•To discusses the trend of foreign direct investment in India.
•To suggest some recommendations with reference to this study.

The cumulative amount of inflow of FDI was US$ 290,078 million for the period from April, 2000 to March, 2013. While the FDI inflow to India during the financial year 2012-13 was US$ 36,860million.

**Table No. 1**
**Total FDI Inflows**
**(From April, 2000 to March, 2013)**

| Sl No. | Item | Amount of FDI Inflow | |
|---|---|---|---|
| | | ( in ₹ Crore ) | ( in $ million ) |
| 1 | Cumulative Amount of FDI Inflows (Equity inflows + Re-invested earnings + Other capital) | - | 290,078 |
| 2 | Cumulative Amount of FDI Equity Inflows (Excluding, amount remitted through RBI's-NRI Schemes) | 896,380 | 193,282 |

Source: FDI Statistics, Department of Industrial Policy& Promotion, Ministry of Commerce& Industry, Government of India. 2013.

**Table No. 2**
**FDI Inflows during Financial Year 2012-13**
**(From April, 2012 to March, 2013)**

| Sl No. | Item | Amount of FDI Inflow | |
|---|---|---|---|
| | | ( in ₹ Crore ) | ( in $ million ) |
| 1 | Total FDI Inflows Into India (Equity inflows + Re-invested earnings + '\Other capital) | - | 36,860 |
| 2 | FDI Equity Inflows | 121,907 | 22,423 |

Source: RBI's Monthly bulletin dated: 13.05.2013.

Foreign Direct Investment (FDI) as a strategic component of investment is needed by India for its sustained economic growth and development through creation of jobs, expansion of existing manufacturing industries, short and long term project in the field of healthcare, education, research and development. The sector-wise inflow of FDI into various sectors in India reflects the sustained economic growth and development through creation of jobs, expansion of existing manufacturing industries.

The sectorial-wise inflow of FDI to India for the period from April, 2000 to March 2013, reveal that 19.26 percentages were on service sector, while 11.42 percentages were in Construction Development sector. Telecommunications. Computer, Software & Hardware and Drugs & Pharmaceuticals sector were 6.65 % 6.05%, and 5.34% respectively. FDI inflow to Automobile Industry, Power, Metallurgical Industries and Hotel & Tourism sector were 4.59 %, 4.29 %, 4.05 %, 3.88% and 3.43% respectively.

During this period FDI inflow to sectors namely Petroleum & Natural Gas ,Trading Information & Broadcasting (Including Print Media) , Electrical Equipment ,Cement and Gypsum Products , Non-Conventional Energy , Miscellaneous Mechanical & Engineering Industries , Industrial Machinery ,Consultancy Services and Construction (Infrastructure) accounts for one to three percentage only. While in to the other sectors the FDI inflows were less than one percentage.

**Table No. 3**
**SECTOR-WISE FDI EQUITY INFLOWS FROM APRIL, 2000 TO MARCH, 2013**

| Sl. No | Sector | Amount of FDI Inflow | | % with total FDI Inflow (+) |
|---|---|---|---|---|
| | | ( in ₹ Crore ) | ( in $ million ) | |
| 1 | Services Sector | 172,275.31 | 37,234.60 | 19.26 |
| 2 | Construction Development | 101,049.13 | 22,080.20 | 11.42 |
| 3 | Telecommunications | 58,732.23 | 12,856.06 | 6.65 |
| 4 | Computer Software & Hardware | 52,774.07 | 11,691.10 | 6.05 |
| 5 | Drugs & Pharmaceuticals | 48,879.53 | 10,318.17 | 5.34 |
| 6 | Chemicals (Other Than Fertilizers) | 40,495.55 | 8,880.83 | 4.59 |

| | | | | |
|---|---|---|---|---|
| 7 | Automobile Industry | 39,169.94 | 8,294.85 | 4.29 |
| 8 | Power | 36,136.88 | 7,834.22 | 4.05 |
| 9 | Metallurgical Industries | 34,814.13 | 7,507.07 | 3.88 |
| 10 | Hotel & Tourism | 33,260.03 | 6,631.25 | 3.43 |
| 11 | Petroleum & Natural Gas | 24,808.41 | 5,381.48 | 2.78 |
| 12 | Trading | 18,646.51 | 3,955.80 | 2.05 |
| 13 | Information & Broadcasting (Including Print Media) | 15,495.69 | 3,284.21 | 1.70 |
| 14 | Electrical Equipment | 14,668.58 | 3,182.70 | 1.65 |
| 15 | Cement and Gypsum Products | 11,779.04 | 2,626.43 | 1..36 |
| 16 | Non-Conventional Energy | 12,901.12 | 2,591.22 | 1.34 |
| 17 | Miscellaneous Mechanical & Engineering Industries | 10,522.52 | 2,318.71 | 1.20 |
| 18 | Industrial Machinery | 11,017.51 | 2,302.14 | 1.19 |
| 19 | Consultancy Services | 9,692.72 | 2,095.13 | 1.08 |
| 20 | Construction (Infrastructure) Activities | 9,741.06 | 1.08 | 1.08 |
| 21 | Food Processing Industries | 8,681.38 | 1,811.06 | 0.94 |
| 22 | Ports | 6,717.38 | 1,635.08 | 0.85 |
| 23 | Agriculture Services | 7,797.73 | 1,608.69 | 0.83 |
| 24 | Hospital & Diagnostic Centres | 7,437.93 | 1,597.33 | 0.83 |
| 25 | Textiles (Including Dyed,Printed) | 5,689.76 | 1,226.02 | 0.63 |
| 26 | Electronics | 5,466.74 | 1,198.22 | 0.62 |
| 27 | Sea Transport | 5,492.51 | 1,194.50 | 0.62 |
| 28 | Fermentation Industries | 5,095.29 | 1,134.63 | 0.59 |
| 29 | Rubber Goods | 5,824.46 | 1,134.44 | 0.59 |
| 30 | Mining | 4,368.18 | 998.30 | 0.52 |
| 31 | Paper And Pulp (Including Paper Products) | 4,056.14 | 865.54 | 0.45 |
| 32 | Prime Mover (Other Than Electrical Generators) | 4,131.80 | 848.68 | 0.44 |
| 33 | Education | 3,332.97 | 684.35 | 0.35 |
| 34 | Soaps, Cosmetics & Toilet Preparations | 3,115.54 | 632.39 | 0.33 |
| 35 | Machine Tools | 2,967.09 | 622.99 | 0.32 |
| 36 | Medical And Surgical Appliances | 2,913.92 | 604.47 | 0.31 |
| 37 | Ceramics | 2,195.59 | 508.13 | 0.26 |
| 38 | Air Transport (Including Air Freight) | 2,022.00 | 449.26 | 0. 23 |
| 39 | Diamond &,Gold Ornaments | 1,810.74 | 390.76 | 0.20 |
| 40 | Glass | 1,942.21 | 389.07 | 0.20 |
| 41 | Vegetable Oils And Vanaspati | 1,893.72 | 384.94 | 0.20 |
| 42 | Fertilizers | 1,425.53 | 297.90 | 0.15 |
| 43 | Agricultural Machinery | 1,423.25 | 296.42 | 0.15 |
| 44 | Printing Of Books (Including Litho Printing Industry) | 1,257.51 | 272.32 0 | 40.14 |
| 45 | Railway Related Components | 1,246.35 | 270.33 | 0.14 |
| 46 | Commercial, Office & Household Equipment | 1,181.76 | 254.83 | 0.13 |
| 47 | Earth-Moving Machinery | 769.05 | 174.95 | 0.09 |
| 48 | Leather,Leather Goods And Pickers | 527.88 | 107.43 | 0.06 |
| 49 | Tea And Coffee & Rubber (Processing & | 456.01 | 101.21 | 0.05 |
| 50 | Retail Trading (Single Brand) | 459.55 9 | 95.36 | 0.05 |
| 51 | Scientific Instruments | 496.11 | 94.48 | 0.05 |
| 52 | Timber Products 398.52 79.15 0.04 | 398.52 | 79.15 | 0.04 |
| 53 | Photographic Raw Film And Paper | 269.26 | 66.54 | 0.03 |
| 54 | Industrial Instruments | 307.45 | 66.53 | 0.03 |

| | | | | |
|---|---|---|---|---|
| 55 | Boilers And Steam Generating Plants | 305.75 | 61.83 | 0.03 |
| 56 | Sugar | 242.32 | 51.82 | 0.03 |
| 57 | Coal Production | 103.11 | 24.78 | 0.01 |
| 58 | Dye-Stuffs | 87.32 | 19.50 | 0.01 |
| 59 | Glue And Gelatin | 70.56 | 14.55 | 0.01 |
| 60 | Mathematical, Surveying And Drawing Instruments | 39.80 | 7.98 | 0.00 |
| 61 | Defence Industries | 19.89 | 4.12 | 0.00 |
| 62 | Coir | 10.37 | 0.00 | 60.00 |
| 63 | Miscellaneous Industries | 35,469. | 7,843.68 | 4.10 |
| Sub -Total | | 896,379.67 | 193,283.31 | 100 |
| 64 | RBI'S- NRI Schemes (2000-2002) | 533.06 | 121.33 | - |
| Grand Total | | 896,912.73 | 193,404.64 | - |

Source: FDI Statistics, Department of Industrial Policy& Promotion, Ministry of Commerce& Industry, Government of India. 2013.

## IV. Conclusion

FDI in India has a significant role in the economic growth and development of India. FDI in India to various sectors can attain sustained economic growth and development through creation of jobs, expansion of existing manufacturing industries. The inflow of FDI in service sectors and construction and development sector, from april, 2000 to march, 2013 attained substantial sustained economic growth and development through creation of jobs in India. Computer, Software & Hardware and Drugs & Pharmaceuticals sector were the other sectors to which attention was shown by Foreign Direct Investors (FDI). The other sectors in Indian economy the Foreign Direct Investors interest was, in fact has been quite poor.

## References

[1] Agarwal J, Khan MA (2011) Impact of FDI on GDP: A comparative study of China and India, Int. J. Business Management 6(10):71-79.

[2] Kumar Gajendran Lenin, Karthika S (2010) Sectoral performance through inflows of foreign direct investment (FDI).

[3] Singh, S (2009) Foreign direct investment (fdi) and growth of states of india. VISION 2020 - Managerial Strategies and Challenge, Wisdom Publications, Delhi.

[4] Devajit Mahanta, (2012) Impact of foreign direct investments on indian economy, Research J. Management Sciences, 1(2):29-31.

[5] Sharma RK (2006) FDI in Higher Education: Official Vision Needs Corrections, Economic and Political Weekly, pp. 5036.

[6] Balasubramanyam VN, Sapsford David (2007) Does India need a lot more FDI, Economic and Political Weekly, pp.1549-55.

[7] Bajpai Nirupam, Jeffrey D Sachs (2006) Foreign Direct Investment in India: Issues and Problems, Harvard Institute of International Development, Development Discussion Paper No. 759.

[8] Reetu Sharma , Nikita Khurana(2013), Role of Foreign Direct Investment (FDI) in Different Sectors, International Journal of Advances in Management and Economics, Jan-Feb 2013, Page-14-19

[9] Chien, Nguyen Dinh and Kezhong Zhang (2012) FDI of vietnam; two-way linkages between FDI and GDP, competition among provinces and effects of laws, iBusiness, 4:157-163.

[10] Guruswamy Mohan, Sharma Kamal, Mohanty Jeevan Prakash, Korah Thomas J (2005) FDI in India's Retail Sector: More Bad than Good? Economic and Political Weekly, pp.619-623.

[11] Kulwinder Singh (2005) Foreign Direct Investment in India: A Critical analysis of FDI from 1991-2005, papers.ssrn.com/sol3/papers.cfm_id_822584.

[12] Ministry of Finance(2003-04) Report of the economic survey, Government of India, New Delhi

[13] Weisskof TE (1972) The impact of foreign capital inflow on domestic savings in underdeveloped countries, J. Int. Economics, 25-38.

[14] Sahoo D, Mathiyazhagan MK, Parida P(2002) Is foreign direct investment an engine of growth? Evidence from the Chinese economy, Savings and Development, 419-439

[15] Nayak DN (1999) Canadian foreign direct investment in India: Some observations, Political Economy J. India, 8:51-56

[16] Srivastava S (2003)What is the true level of FDI flows to India?, Economic and Political Weekly, 1201-1209

[17] www.imf.org

[18] www.rbi.org.

[19] www.dipp.gov.in.

## Authors

**First Author** – Dr.M.Shahul Hameedu M.Com, MBA, PGDHRM, Ph.D, Associate Professor, Iqbal College, Peringammala. Thiruvananthapuram,Kerala, India., shahulparimanam@gmail.com