

FOREIGN DIRECT INVESTMENT (FDI): ROUTE FOR INDIA TO BECOME NEXT SUPER POWER

Dakshayani G.N

Research Scholar

Research and Development Centre,
Bharathiar University, Coimbatore-641 046

Email: dakshayanisuresh@rediffmail.com

Abstract:

India is the largest democracy in the world with over 1 billion population. After the independence from the British in 1947, India adopted a centrally controlled, socialistic economic policy and isolated itself from global markets. In the early 1990s the Prime Minister P. V. Narasimha Rao identified new routes for Indian economy. He successfully managed to bring about a paradigm shift from socialistic economic philosophy to a liberalized, market-driven economy, opening the doors of India to the global markets. He launched the free market reforms that rescued the almost bankrupt nation from the brink of economic collapse. Therefore, he is referred to as the “father of Indian economic reforms”. With his effort new routes are open for Indian market which helps to enter in to international market. Among those routes foreign direct investment is one of the important modes to enter international market. FDI helps in transferring of financial resources, technology and innovative and improved management techniques along with raising productivity. An Indian company may receive Foreign Direct Investment either through automatic route or government route. This will help the Indian companies to prove that India is going become super power in the global level. In this regard this paper tries to study the need of FDI in India, to exhibit the sector-wise & year-wise analysis of FDI's in India and FDI inflows in India.

Keywords: FDI, Finance, Productivity, Economy;

Introduction:

Foreign investments mean both foreign portfolio investments and foreign direct investments (FDI). FDI brings better technology and management, marketing networks and offers competition, the latter helping Indian companies improve, quite apart from being good for consumers. An Indian company may receive Foreign Direct Investment under the two routes one is **Automatic Route** another one is **Government Route** where. FDI in activities not covered under the automatic route requires prior approval of the Government which are considered by the Foreign Investment Promotion Board (FIPB), Department of Economic Affairs, Ministry of Finance. But the FDI is not permitted in the following industrial sectors like Arms and ammunition, Automatic Energy, Railway Transport, Coal and lignite, Mining of iron, manganese, chrome, gypsum, sulphur, gold, diamonds, copper, zinc, Lottery Business, Gambling and Betting, Agricultural (excluding Floriculture, Horticulture, Development of seeds, Animal Husbandry, Pisciculture and cultivation of vegetables, mushrooms, etc. under controlled conditions and services related to agro and allied sectors) and Plantations activities (other than Tea Plantations), Housing and Real Estate business, Trading in Transferable Development Rights (TDRs) and Manufacture of cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes.

Review of Literature:

Dr. Patil Usha.N: The Government of India was initially very apprehensive of the introduction of the Foreign Direct Investment in the Retail Sector in India. The unorganized retail sector as has been mentioned earlier occupies 98% of the retail sector and the rest 2% is contributed by the organized sector. Hence one reason why the government feared the surge of the Foreign Direct Investments in India was the displacement of labour. The unorganized retail sector contributes about 14% to the GDP and absorbs about 7% of our labour force. Hence the issue of displacement of labour consequent to FDI is of primal importance. There are different viewpoints on the impact of FDI in the retail sector in India. According to one viewpoint, the US evidence is empirical proof to the fact that FDI in the retail sector does not lead to any collapse in the existing employment opportunities. There are divergent views as well. According to the UK Competition Commission, there was mass scale job loss with entry of the hypermarkets brought about by FDI in the UK retail market. This paper highlight is Introduction & Definition of Retail, Division of Retail Industry, FDI Policy in India, FDI Policy with Regard to Retailing in India, Foreign Investor's Concern Regarding FDI in Single and Multi Brand Retail.

Nunnenkamp, Peter; Mukim Megha: We assess the location choices of 6020 foreign investors at the level of Indian districts. Employing conditional logit models, we find that clustering of Foreign Direct Investment (FDI) is driven strongly by herding among investors from both, the same and other countries of origin. However, the behaviour of Nonresident Indians (NRIs) and German investors is strikingly different.

Research methodology:

This research is a descriptive study in nature. For the purpose of the study the secondary data was collected from various journals, magazines, work papers and websites from the concerned departments. The study is based on the time period from 2000-2015. For analysis graphs and tables are used where ever required to show the data of FDI during the concerned period.

Objectives of the study:

- To know the FDI equity inflow in India.
- To understand the sector-wise and year wise analysis of FDIs in India
- To know the recent trends in FDI in India.

Analysis of Recent trends in FDI in India:

Table.1: FDI equity inflows (month-wise) during the financial year 2014-15

Financial year 2014-15(April-March)		Amount of FDI Equity inflows (in Rs. Crores)	(InUS\$m)
1.	April, 2014	10,290	1,705
2.	May, 2014	21,373	3,604
3.	June, 2014	11,508	1,927
4.	July, 2014	21,022	3,500
5.	August, 2014	7,783	1,278
6.	September, 2014	16,297	2,678
7.	October, 2014	16,288	2,655
8.	November, 2014	9,486	1,537
9.	December, 2014	13,562	2,161
10.	January, 2015	27,880	4,481
11.	February, 2015	20,397	3,288
12.	March, 2015	13,221	2,117
2014-15 (from April, 2014 to March, 2015)		189,107	30,931
2013-14 (from April, 2013 to March, 2014) #		147,518	24,299
%age growth over last year (+) 28 %		(+) 28 %	(+) 27

Source: As per DIPP's FDI data base

Interpretation:

Table 1 shows the amount of FDI inflows from April 2014 to March 2015. It shows the amount in Rs crore and in US \$ mn. The highest FDI inflows in the country is in the month January,2015 i.e. 27,880 in Rs crores and 4,481 in US \$ mn. Other months shows the fluctuating trend.

Chart-1: Amount of FDI equity inflows

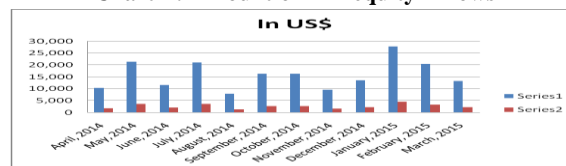


Chart 1 shows the total FDI inflows during the time period April 2014 to March 2015. The FDI inflow shows a fluctuating trend in different months.

Table -3: Statement On Country-Wise FDI Equity Inflows From April, 2000 To March, 2015

S.No	Name of the Country	Amount of Foreign Direct Investment Inflows		%age with Inflows
		(In Rs crore)	(In US\$ million)	
1	Mauritius	425,657.13	87,554.99	35.23
2	Singapore	167,157.07	32,187.73	12.95
3	United Kingdom	109,654.32	22,210.30	8.94
4	Japan	93,395.86	18,352.28	7.38
5	Netherlands	77,257.90	14,671.10	5.90
6	U.S.A	66,879.76	13,751.06	5.53
7	Cyprus	39,363.34	8,044.02	3.24
8	Germany	38,509.42	7,643.58	3.08
9	France	22,587.77	4,513.00	1.82
10	UAE	15,119.70	3,044.75	1.23
11	Switzerland	15,214.46	3,044.55	1.23
12	Spain	10,537.86	2,052.95	0.83
13	Italy	7,783.74	1,585.46	0.64
14	South Korea	7,775.04	1,551.94	0.62
15	HongKong	7,864.90	1,540.89	0.62
16	Luxembourg	6,958.23	1,245.15	0.50
17	Sweden	5,267.89	1,092.15	0.44
18	Caymen Islands	4,964.06	1,074.25	0.43
19	Russia	5,771.36	1,054.09	0.42
20	China	5,261.77	897.06	0.36

Source: As per DIPP's FDI data base

Interpretation: Table 3 depicts the country having the highest FDI in India. The report shows that the MAURITIUS country has the highest foreign investor in India with 35.23%. After Mauritius, Singapore and United Kingdom invest the highest FDI in India with 12.95% and 8.94% respectively. Japan also get 4th position in FDI in India

Table -4: DIPP'S – Financial Year-wise FDI Equity Inflows

(As per DIPP's FDI data base – equity capital components only)

S. No.	Financial Year (April – March)	Amount of FDI Inflows		%age growth over previous year (in terms of US \$)
		InRs crores	In US\$ million	
FINANCIAL YEARS 2000-01 to 2014-15 (up to March, 2015)				
1.	2000-01	10,733	2,463	-
2.	2001-02	18,654	4,065	(+) 65 %
3.	2002-03	12,871	2,705	(-) 33 %
4.	2003-04	10,064	2,188	(-) 19 %
5.	2004-05	14,653	3,219	(+) 47 %
6.	2005-06	24,584	5,540	(+) 72 %
7.	2006-07	56,390	12,492	(+) 125 %
8.	2007-08	98,642	24,575	(+) 97 %
9.	2008-09	142,829	31,396	(+) 28 %
10.	2009-10 #	123,120	25,834	(-) 18 %
11.	2010-11 #	97,320	21,383	(-) 17 %
12.	2011-12 # ^	165,146	35,121	(+) 64 %
13.	2012-13 #	121,907	22,423	(-) 36 %

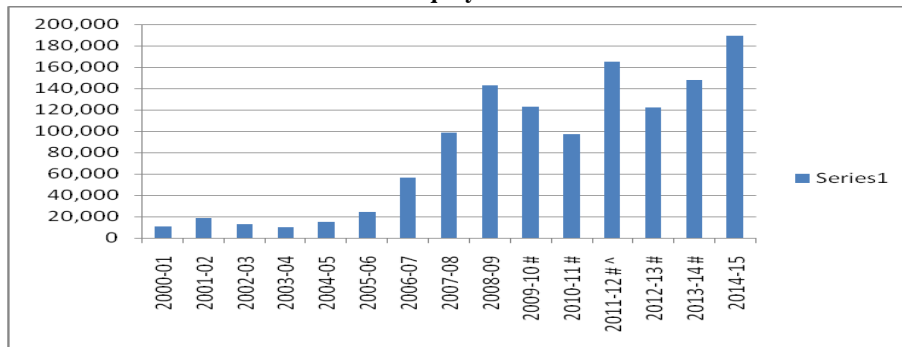
14.	2013-14 #	147,518	24,299	(+) 8%
15.	2014-15	189,107	30,931	(+) 27%
CUMULATIVE TOTAL (from April, 2000 to March, 2015)		1,233,538	248,634	

Source: DIPP's FDI data base

Interpretation:

Table 4 shows the total amount of FDI inflows in India during the last 15 years i.e 2001 to 2015. The FDI inflow from 2000-2001 i.e 10,733 crore Rs. in 2001-02 it was 18,654 crore rupees. It shows the Good result in the FDI inflows in India. Little bit ups and downs in FDI inflows upto 2005-06, but after that great hike in the year 2007-08 i.e 98,642 crore rupees as compare to earlier years. In 2008-2009 there was a huge investment in FDI in 142,829 crore Rupees and so on. And in the year 2011-12 it was increased up to Rs. 1,65,146. So we can say that the foreign investment have been on rise in India.

Chart 3 FDI Equity Inflows in India



Interpretation :

The chart 3 shows that FDI equity inflows is maximum in the year 2014-15. From 2000-01 to 2006-07 it has very less of FDI equity inflows in India. But from 2008 to 2015 it shows a fluctuating trend.

Table -5: Statement on Sector-Wise FDI Equity Inflows From April, 2000 To March, 2015

Sl.No	Sector	Amount of FDI inflow		% of age of total inflow
		(In Rs Crore)	(In Us\$ Million)	
1	Services Sector *	205,532.20	42,712.67	17.19
2	Construction Development: Townships, Housing, Built-Up Infrastructure And Construction-Development Projects	113,139.49	24,064.13	9.68
3	Telecommunications	84,091.83	17,058.03	6.86
4	Computer Software & Hardware	73,234.77	15,017.32	6.04
5	Drugs & Pharmaceuticals	65,281.56	13,120.87	5.28
6	Automobile Industry	63,990.57	12,382.49	4.98
7	Chemicals (Other Than Fertilizers)	49,310.42	10,336.98	4.16
8	Power	46,640.34	9,557.33	3.85
9	Miscellaneous Industries	44,060.46	9,242.95	3.72
10	Metallurgical Industries	41,146.85	8,546.73	3.44

Interpretation:

With the above table it is clear that service sector consist maximum FDI equity inflows from 2000-2015 followed by construction development etc, telecommunications, computer software and other sectors occupies the next positions.

Table-6: Share of Top Investing Countries FDI Equity Inflows

(Financial years): Amount Rupees in crores (US\$ in million)

R a n k s	Country	2012-13 (April - March)	2013-14 (April - March)	2014-15 (April '14- March, 2015)	Cumulative Inflows (April '0 - March '15)	%age to total Inflows (in terms of US \$)
1.	Mauritius	51,654 (9,497)	29,360 (4,859)	55,172 (9,030)	425,657 (87,555)	35 %
2.	Singapore	12,594 (2,308)	35,625 (5,985)	41,350 (6,742)	167,157 (32,188)	13 %
3.	U.K	5,797 (1,080)	20,426 (3,215)	8,769 (1,447)	109,654 (22,210)	9 %
4.	Japan	12,243 (2,237)	10,550 (1,718)	12,752 (2,084)	93,396 (18,352)	7 %
5.	Netherlands	10,054 (1,856)	13,920 (2,270)	20,960 (3,436)	77,258 (14,671)	6 %
6.	U.S.A	3,033 (557)	4,807 (806)	11,150 (1,824)	66,880 (13,751)	6 %
7.	Cyprus	2,658 (490)	3,401 (557)	3,634 (598)	39,363 (8,044)	3 %
8.	Germany	4,684 (860)	6,093 (1,038)	6,904 (1,125)	38,509 (7,644)	3 %
9	France	3,487 (646)	1,842 (305)	3,881 (635)	22,588 (4,513)	2 %
10.	UAE	987 (180)	1,562 (255)	2,251 (367)	15,120 (3,045)	1 %
Total FDI inflows from all countries		121,907 (22,423)	147,518 (24,299)	189,107 (30,931)	1,233,538 (248,633)	121,907 (22,423)

*Includes inflows under NRI Schemes of RBI.

Interpretation:

After Mauritius, Singapore is the second highest country which invests in India. Singapore invests in the different sectors. Like construction, mining of iron ore, data processing software etc. in construction sector Singapore invest in the biggest real estate company DLF. Same case in generation of gas in gas working sector with Reliance Gas, transportation. So, Singapore is always try to make a good business relation with India through FDI. U.K and Japan tooks the next position in FDI equity inflows.

Findings:

- FDI is an important tool for the economic growth of India.
- FDI shown a tremendous growth in second decade (2000 -2011) that is three times then the first decade of FDI in services sector.
- Service sector is first and infrastructure sector is second segment which attracts maximum equity in FDI.
- FDI create more employment opportunities in Indian service sector.
- Mauritius and Singapore is the 2 top countries which has maximum FDI in India.
- FDI plays an important role in the development of infrastructure because many countries invest in the infrastructure sector.
- FDI is restricted in atomic energy and railway transport sectors.
- Mauritius is having highest share in investing through FDI.
- Currently Maximum Equity inflow is in service sector.

CONCLUSION:

With the above analysis it is clear that FDI helps to raise the productivity, employment opportunities in various sectors. When compared to other sectors Indian service sector is attracting more FDI and the tremendous growth is identified in this sector. It generates the proper employment options for skilled workers with high perks. On the other side infrastructure development is the basic need for any country to prove itself best in the international level. Therefore, FDI helps in developing this sector as required manner. Apart from that telecommunication, automobile, computer software, power, banking and insurance sector help in providing the strength to the Indian economic condition and develop the foreign exchange system in country. So, we can conclude that FDI always helps to develop the country by creating employment opportunities in the country and also support the small scale industries to put an impression on the world wide level through liberalization and globalization. The best impression in the world in all the sector will increase the potentiality to become super power.

References:

- Dr. Patil Usha.N, Foreign Direct Investment in Indian Retail Sector, VOL : II, ISSUE - I Uttama Nathapornpan Piyaarekul, Some new evidence on intra-industry trade and complex FDI in ASEAN countries, International Journal of Economics and Business Research 2012 - Vol. 4.
- Kumar Anil B. and Kote Honnakeri P.M., Foreign Direct Investment and Retail Sector in India, International Journal of Contemporary Research and Review Vol.: 4, No.: 4, February 2012.
- University of Pennsylvania, USA, Impact of Pension Privatization on Foreign Direct Investment, World Development Vol.: 40, No.: 2, February 2012
- Tadesse Bedassa and Shukralla Elias K., The impact of foreign direct investment on horizontal export diversification.
- Shalini Aggarwal, Ankush Singla, Ritu Aggarwal, Foreign Direct Investment In India, IJCEM International Journal of Computational Engineering & Management, Vol. 15 Issue 5, September 2012 ISSN (Online): 2230-7893

Websites:

- www.dipp.nic.in
- www.fdi.gov.in
- www.sebi.gov.in
- www.rbi.org.in