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Role of Foreign Direct Investment (FDI) in Indian Economy

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Abstract: *Smoothly operating financial markets play a significant role in contributing to the wellbeing and efficiency of an economy. There is a well-built positive relationship between financial market development and economic growth. Foreign investment adds a great deal to India's economy the continuous inflow of FDI. Which is now authorized across numerous industries clearly shows the faith that overseas investors have in the country's economy. In this paper we study the effects of FDI, With respect to India and its economy. We try to analyze the merits and demerits of the foreign direct investment, and also evaluate the role of FDI in economic development of India. So this paper helps us to study about the present FDI status, and how FDI relates economic development and some suggestions and so on. With the initiation of globalization, developing countries, particularly those in Asia, have been witnessing a immense surge of FDI inflows during the past two decades. Even though India has been a latecomer to the FDI scene compared to other East Asian countries, its considerable market potential and a liberalized policy regime has sustained its attraction as a favourable destination for foreign investors. This research paper aims to examine the impact of FDI on the Indian economy, particularly after two decades of economic reforms, and analyzes the challenges to position itself favourably in the global competition for FDI. The paper provides the major policy implications from this analysis, besides drawing attention on the complexities in interpreting FDI data in India.*

Keywords: Liberalisation, Influx, Growth, Development, Technology

I. Introduction

Is it FDI is the result of globalization? What about the FDI in Indian context? Simply answer is in our history. In early 1498 when a Portuguese Vaskodigama arrived at Calicut he saw the pros parity in whole world. Later on people started to visit India. Portuguese, Dutch, British and French they established their premises in India and started to do business with Indian citizens. When a firm controls (or have a strong say in) another firm located abroad, e.g. by owing more than 10% of its equity, the former is said "parent enterprise" (or "investor") and the latter "foreign affiliate". For a country, attracting an inflow of FDI strengthen the connection to world trade networks and finance its development path. However, unilateral substantial FDI to a country can make it dependent on the external pressure that foreign owners might exert on it. Foreign investment plays a significant role in development of Indian economy. Many countries provide many incentives for attracting the foreign direct investment (FDI). Need of FDI depends on saving and investment rate in any country. Foreign Direct investment acts as a bridge to fulfill the gap between investment and saving. In the process of economic development foreign capital helps to cover the domestic saving constraint and provide access to the superior technology that promotes efficiency and productivity of the existing production capacity and generate new production opportunity.

Sir Tomas roe was the first British emperor and get the permission of trading in Mughal India. After this they shaped the East India Company and started their business. It was the first form of FDI in India. Later it got many transform according to the world's financial status and become more popular word as foreign direct investment and the more simple word called foreign institutional investors (FII). FDI in India can be approved through automatic route and government approval, in the automatic route FDI can be done through the consent of RBI, as RBI has the power to do the same. While on the other hand FDI though government approval is done with the acceptance of government and while giving such type of acceptance. Government will act according to the recommendation of the FIPB (Foreign investment promotion board). FDI is the sum of some of equity capital other long term and short term capital. It usually involves participation of in management, joint venture, transfer of technology and expertise. There are mainly two types of FDI Inward FDI and Outward FDI.

1.1 Objectives:

The research paper covers the following objectives:

- To study the trends and pattern of flow of FDI.
- To evaluate the impact of FDI on the Indian economy.

1.2 Foreign Direct Investment in India

FDI and Economic Growth

The historical background of FDI in India can be traced back with the establishment of East India Company of Britain. British capital came to India during the colonial eraof Britain in India. After Second World War, Japanese companies entered Indian market and enhanced their trade with India, yet U.K. remained the most dominant investor in India. Further, after Independence issues relating to foreign capital, operations of MNCs, gained attention of the policy makers. Keeping in mind the national interests the policy makers designed the FDI policy which aims FDI as a medium for acquiring advanced technology and to mobilize foreign exchange resources. With time and as per economic and political regimes there have been changes in the FDI policy too. The industrial policy of 1965, allowed MNCs toventure through technical collaboration in India. Therefore, the government adopted a liberal attitude by allowing more frequent equity.

In the critical face of Indian economy the government of India with the help of World Bank and IMF introduced the macro-economic stabilization and structuraladjustment program. As a result of these reforms India open its door to FDI inflows and adopted a more liberal foreign policy in order to restore the confidence of foreign investors. Further, under the new foreign investment policy Government of India constituted FIPB (Foreign Investment Promotion Board) whose main function was to invite and facilitate foreign investment

Starting from a baseline of less than USD 1 billion in 1990, a recent UNCTAD survey projected India as the second most important FDI destination (after China) for transnational corporations during 2010-2012. As per the data, the sectors which attracted higher inflows were services, telecommunication, construction activities and computer software and hardware. Mauritius, Singapore, the US and the UK were among the leading sources of FDI to the country. According to GYANPRATHA – ACCMAN (Journal of Management, Volume 5 Issue 1, 2013) FDI for 2009-10 at US$ 25.88 billion was lower by five per cent from US$ 27.33 billion in the previous fiscal. Foreign direct investment in August dipped by about 60 per cent to approx. US$ 34 billion, the lowest in 2010 fiscal, industry department data released showed. In the first two months of 2010-11 fiscal. FDI inflow into India was at an all-time high of $7.78 billion up 77%from $4.4 billion during the corresponding period in the previous year. In 2013, the government relaxed FDI norms in several sectors, including telecom, defence, PSU oil refineries, power exchanges and stock exchanges, among others. In retail, UK-based Tesco submitted its application to initially invest US$ 110 million to start a supermarket chain in collaboration with Tata Group's Trent. In civil aviation, Malaysia-based Air Asia and Singapore Airlines teamed up with Tata Group to launchtwo new airline services. Also, Abu Dhabi-based Etihad picked up a 24 per cent stake in Jet Airways that was worth over Rs 2, 000 crore (US$ 319.39 million). India has received total foreign investment of US$ 306.88 billion since 2000 with 94 per cent of the amount coming during the last nine years. In the period 1999–2004, India received US$ 19.52 billion of foreign investment. In the period 2004–09, foreign investment in the country touched US$ 114.55 billion, further increasing to US$ 172.82 billion between 2009–September, 2013.

During FY 2012–13, India attracted FDI worth US$ 22.42 billion. Tourism, pharmaceuticals, services, chemicals and construction were among the biggest beneficiaries. The January–November period in 2013 witnessed mergers and acquisitions deals worth US $ 26.76 billion in India, according to a survey by tax advisory firm Grant Thornton.

II. RECENT DEVELOPMENTS

New Zealand is looking to establish an office in Mumbai to broaden its education footprint in India. It plans to set up an education promotion and market development role within the New Zealand Consulate General, Mumbai. There was an increase of more than 10 per cent in student visas issued to Indian nationals in 2013, making India among the fastest growing student markets for New Zealand. Korean South-East Power Company (KOSEP), part of South Korean state-owned power generator Korea Electric Power Corporation, has signed an initial agreement with Jinbhuvish Group, Mumbai, for technical support for its Rs 3, 450-crore (US$ 549.31 million) project in Maharashtra. The 600 megawatt (mw) power plant, which will be set up in Yavatmal district, is expected to be commissioned in 2016.

India and UAE have agreed to promote collaboration in renewable energy, focusing in the areas of wind power and solar energy. A Memorandum of Understanding (MoU) was signed by Dr Farooq Abdullah, Minister of New and Renewable Energy of India and Dr Sultan Ahmed Al Jaber, Minister of State of UAE in Abu Dhabi on January 18, 2014. Luxury watch brand Jaeger-LeCoultre from Switzerland has filed for a 100 per cent single brand application to enter the Indian retail market. It thus became the first luxury company to apply for FDI through this route. Geneva-based Richemont SA that owns the luxury brand filed the application with the Department of Industrial Policy and Promotion (DIPP). France's Lactalis, the biggest dairy products group in the world, will most likely buy out Hyderabad-based Tirumala Milk Products for US $275–300 million. Lactalis has a yearly turnover of about US $21 billion. Tirumala had a turnover of Rs 1, 424 crore (US$ 226.71 million) for FY 2012–13. The Hyderabad-based company, which was founded in 1998, makes dairy products such as sweets, flavoured milk, curd, ice- cream, etc.

2.1 Recent Policy Initiatives

The Ministry of Home Affairs has finally given the approval to the proposal of allowing FDI in railways. The Cabinet Committee on Economic Affairs (CCEA) is expected to consider the proposal. Foreign investors can invest only in construction and maintenance of railway projects, and not in operations. India's Prime Minister Mr Manmohan Singh has sought increased Japanese investment in the country. The two countries are already looking at the possibility of concrete cooperation in areas such as manufacturing and research and development in the electronic industry and energy efficient and energy saving technologies. "I believe there is enormous untapped potential in our business ties, " Mr Singh said following the annual summit level meeting between Japan and India. The presence of Japanese companies in India increased by 16 per cent in 2013.

The Andhra Pradesh State Investment Promotion Board has given the approval to six major investment proposals that will have a total investment of Rs 6, 500 crore (US$ 1.03 billion). The proposals include those by multinational companies such as PepsiCo, Cadbury, Colgate, Johnson & Johnson, Gerdau Steels and ITC. PepsiCo's unit will be the largest beverages plant in India with an investment of Rs 1, 200 crore (US$ 191.06 million). Similarly, Cadbury is establishing its facility in Sri City with aninvestment of Rs 2, 500 crore (US$ 398.07 million). In an effort to improve capital flows into the country, the Indian government has allowed 100 per cent FDI under automatic route in storage and warehousing, which includes warehousing of agriculture products with refrigeration. The government has also set up National Centre for Cold Chain Development (NCCD) which will look at standards and protocols for cold chain infrastructure. Based on the recommendations of Foreign Investment Promotion Board (FIPB) made on December 30, 2013, the Indian government has agreed to five FDI proposals amounting to Rs 1133.41 crore (US$ 180.16 million) approximately. On November 13, 2013, it had approved 12 proposals of FDI amounting to Rs 821.63 crore (US$ 130.73 million) approximately. The FIPB has also approved Swedish clothing major Hennes & Mauritz (H&M) AB's proposal to open 50 stores across India. The investment will be around Rs 720 crore (US$ 114.61 million).

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2.2 Evaluation of FDI and GDP in India during (1991-92 to 2011-2012)

The following table depicts the picture of FDI inflow and its impact on GDP.

FDI inflow, GDP and FDI/GDP ratio in India (1991-92 to 2011-2012) Years	FDI Inflow (in rupees crore)	Growth rate of FDI inflow (%)	GDP	Growth rate of GDP (%)	FDI as a percentage of GDP
1991-92	409	-	1099072	-	0.037213
1992-93	1094	167.4817	1158025	5.363889	0.094471
1993-94	2018	84.46069	1223816	5.681311	0.164894
1994-95	4312	113.6769	1302076	6.394752	0.331163
1995-96	6916	60.38961	1396974	7.288207	0.49507
1996-97	9654	39.58936	1508378	7.974665	0.640025
1997-98	13548	40.33561	1573263	4.301641	0.86114
1998-99	12343	-8.8943	1678410	6.683371	0.735398
1999-00	10311	-16.4628	1786525	6.441513	0.577154
2000-01	12645	22.63602	1864301	4.35348	0.67827
2001-02	19361	53.1119	1972606	5.809416	0.981494
2002-03	14932	-22.8759	2048286	3.836549	0.729
2003-04	12117	-18.8521	2222758	8.517951	0.545134
2004-05	17138	41.43765	2388768	7.468649	0.717441
2005-06	24613	43.61652	3254216	36.22989	0.756342
2006-07	70630	186.9622	3566011	9.581263	1.980644
2007-08	98664	39.69135	3898958	9.336679	2.530522
2008-09	122919	24.58343	4162509	6.759524	2.953003
2009-10	123378	0.373417	4493743	7.957556	2.745551
2010-11		88502		-28.2676	
2011-12		173947		96.5458	
Total		577002		42598695	

The above table shows the FDI inflow and GDP in India from the year 1991-92 to 2011-2012(post-liberalization period). The table states that India had showed a large amount of FDI inflow. It showed that FDI inflow has been increased by more than210 times during the study period because the FDI Inflow has been increased fromRs. 409 crore in 1991-92 to Rs. 173947 crore in 20011-2012. Due to technological up gradation, access to global managerial skills and practices, optimal utilization of human and natural resources, making Indian industry internationally competitive,opening up export markets, providing backward forward linkages and access to international quality goods and services the Indian Government has used many stepsto attract more FDI. The highest amount of FDI was received in the year 2011-2012, amounting to Rs. 173947crore. The highest growth rate of FDI inflow is in the year 2006-07 i.e., 186.9622 percent. The table also shows that FDI as a percentage of GDP was less than one until 2005-06 after then it is increasing year after year.

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DPIIT's – FINANCIAL YEAR-WISE FDI EQUITY INFLOW:				
S. No.	**Financial Year (April – March)**	**Amount ofFDI Equity inflow**		**% age growth over previousyear (in terms of USD)**
FINANCIAL YEAR 2000-01 TO2022-23		***In INR Crores***	***In USD Million***	
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	1,42,829	31,396	(+) 28 %
10	2009-10	1,23,120	25,834	(-) 18 %
11	2010-11	97,320	21,383	(-) 17 %
12	2011-12^	1,65,146	35,121	(+) 64 %
13	2012-13	1,21,907	22,423	(-) 36 %
14	2013-14	1,47,518	24,299	(+) 8%
15	2014-15	1,81,682	29,737	(+) 22%
16	2015-16	2,62,322	40,001	(+) 35%
17	2016-17	2,91,696	43,478	(+) 9%
18	2017-18	2,88,889	44,857	(+) 3%
19	2018-19	3,09,867	44,366	(-) 1%
20	2019–20	3,53,558	49,977	(+) 13%
21	2020-21	4,42,569	59,636	(+) 19%
22	2021-22	4,37,188	58,773	(-) 1%
23	2022-23 (up to December, 2022)	2,91,073	36,746	
CUMULATIVE TOTAL (from April, 2000to December, 2022)		**39,03,275**	**625,274**	

Source: https://dpiit.gov.in/publications/fdi-statistics

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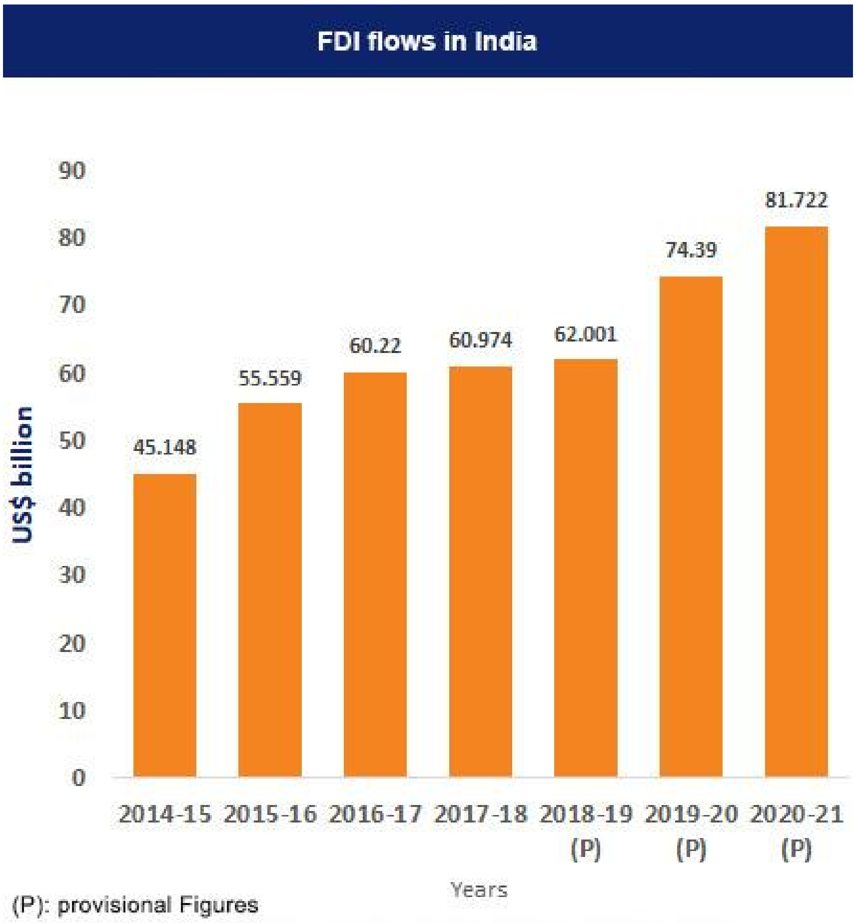

Source: https://www.ibef.org/economy/foreign-direct-investment

India's FDI inflows have increased 20 times from 2000-01 to 2021-22. According to the Department for Promotion of Industry and Internal Trade (DPIIT), India's cumulative FDI inflow stood at US$ 871.01 billion between April 2000-June 2022 this was mainly due to the government's efforts to improve the ease of doing business and relax FDI norms. The total FDI inflow into India from January to March 2022 stood at US$ 22.03 billion, while the FDI equity inflow for the same period was US$ 15.59 billion. From April 2021-March 2022, India's computer software and hardware industry attracted the highest FDI equity inflow amounting to US$ 14.46 billion, followed by the automobile industry at US$ 6.99 billion, trading at US$ 4.53 billion and construction activities at US$ 3.37 billion. India also had major FDI flows coming from Singapore at US$ 15.87 billion, followed by the US (US$ 10.54 billion), Mauritius (US$ 9.39 billion) and the Netherlands (US$ 4.62 billion). The state that received the highest FDI during this period was Karnataka at US$ 22.07 billion, followed by Maharashtra (US$ 15.43 billion), Delhi (US$ 8.18 billion), Gujarat (US$ 2.70 billion) and Haryana (US$ 2.79 billion). In 2022 (until August 2022) India received 811 Industrial Investment Proposals which were valued at Rs. 352,697 crores (US$ 42.78 billion).

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III. FUTURE OUTLOOK

The government has recently made numerous efforts, including easing FDI regulations in various industries, PSUs, oil refineries, telecom and defence. India's FDI inflows reached record levels during 2020-21. The total FDI inflows stood at US$ 81,973 million, a 10% increase over the previous financial year. According to the World Investment Report 2022, India was ranked eighth among the world's major FDI recipients in 2020, up from ninth in 2019. Information and technology, telecommunication and automobile were the major receivers of FDI in FY22. With the help of significant transactions in the technology and health sectors, multinational companies (MNCs) have pursued strategic collaborations with top domestic business groupings, fuelling an increase in cross-border M&A of 83% to US$ 27 billion. India is estimated to require around US$ 1 trillion during the 12th Five-Year Plan period (2012–17), to fund infrastructure in sectors such as roads, airports and ports. The government is in the process of liberalising FDI norms in construction activities and railways, which could bring in investments to meet the target. The government is also relaxing FDI norms in other sectors for foreign investorsto invest. FDI in multi-brand retail has been allowed up to 51 per cent. The minimum requirement for the FDI is US$ 100 million, of which at least 50 per cent must be invested in 'backend infrastructure' within three years following the initiation of the FDI. FDI limit in single-brand retail has been increased to 100 per cent; 49 per cent will be under the automatic route and the rest through the FIPB route.

IV. A BRIEF REVIEW OF THE LITERATURE:

Agarwal and Khan conducted the study on "Impact of FDI on GDP: A Comparative Study of China and India", 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 found out in their study on "Sectoral Performance through Inflows of Foreign Direct Investment (FDI)", 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 place 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. Balasubramanyam and Sapsford 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 notrequire 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 thanFDI for its capital requirements.

Bajpai and Jeffrey 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.

V. CURRENT CHALLENGES AND IMPROVEMENT AREAS

India is definitely a lucrative place for FDI, but there are certainly some challenges and areas for improvement still present. Until, these areas are honed to perfection, India will not become the number one place for FDI.

India is focusing on maximizing political and social stability along with a regulatory environment. In spite of the obvious advantages of FDIs, there are quite a few challenges facing larger FDIs in India, such as:

- Resource challenge: India is known to have huge amounts of resources. There is manpower and significant availability of fixed and working capital. At the same time, there are some underexploited or unexploited resources. The resources are well available in the rural as well as the urban areas. The focus isto increase infrastructure 10 years down the line, for which the requirement will be an amount of about US$ 150 billion. This is the first step to overcome challenges facing larger FDI.
- Equity challenge: India is definitely developing in a much faster pace now than before but in spite of that it can be identified that developments have taken place unevenly. This means that while the more urban areas have been tapped, the poorer sections are inadequately exploited. To get the complete picture of growth, it is essential to make sure that the rural section has more or less the same amount of development as the urbanized ones. Thus, fostering social equality and at the same time, a balanced economic growth.
- Political Challenge: The support of the political structure has to be there towards the investing countries abroad. This can be worked out when foreign investors put forward their persuasion for increasing FDI capital in various sectors like banking, and insurance. So, there has to be a common ground between the Parliament and the Foreign countries investing in India. This would increase the reforms in the FDI area of the country.
- Federal Challenge: Very important among the major challenges facing larger FDI, is the need to speed up the implementation of policies, rules, and regulations. The vital part is to keep the implementation of policies in all the states of India at par. Thus, asking for equal speed in policy implementation among the states in India is important.
- India must also focus on areas of poverty reduction, trade liberalization, and banking and insurance liberalization. Challenges facing larger FDI are not just restricted to the ones mentioned above, because trade relations with foreign investors will always bring in new challenges in investments.

VI. CONCLUSION

India's Foreign Direct Investment (FDI) policy has been gradually liberalised to makethe market more investor friendly. The results have been encouraging. These days, thecountry is consistently ranked among the top three global investment destinations by all international bodies, including the World Bank, according to a United Nations (UN) report.

For Indian economy which has tremendous potential, FDI has had a positive impact. FDI inflow supplements domestic capital, as well as technology and skills of existing companies. It also helps to establish new companies. All of these contributeto economic growth of the Indian Economy.

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