

A Study on Foreign Direct Investment and Its Impact in India

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ABSTRACT

Foreign Direct Investment is the investment made in production or business by the country in another country by either means of buying a company or expanding its business in the foreign country. It is usually by means of bonds and shares. Generally speaking FDI refers to capital inflows from abroad that invest in the production capacity of the economy and are “usually preferred over other forms of external finance because they are non-debt creating, non-volatile and their returns depend on the performance of the projects financed by the investors. FDI also facilitates international trade and transfer of knowledge, skills and technology.” According to the Financial Times, "Standard definitions of control use the internationally agreed 10 percent threshold of voting shares, but this is a grey area as often a smaller block of shares will give control in widely held companies. Moreover, control of technology, management, even crucial inputs can confer de facto control.”

FDI was introduced in the year 1991 under Foreign Exchange Management Act (FEMA), by then finance minister Dr. Manmohan Singh. It started with a baseline of \$1 billion in 1990. India in 1997 allowed foreign direct investment (FDI) in cash and carry wholesale. Then, it required government approval. The FDI scenario in India is currently witnessing a gradual shift with liberalized reforms over last few years and an attractive investment climate making a positive impact on the inflow. Investment into India could mostly follow the automatic route with no licenses or permissions required Investment in sectors that have caps such as single brand retail, private banking, insurance, stock exchange needs to be approved by Foreign Investment Promotion Board.

Key Words: Foreign Direct Investment (FDI), Indian economy, Investors, risk and benefits.

1. INTRODUCTION

Foreign Direct Investment is considered to be the lifeblood of economic development especially for the developing and underdeveloped countries. Multinational companies capitalize on foreign business opportunities by engaging in FDI, which is investment in real assets in foreign countries. According to the International Monetary Fund, FDI is defined as “Investment that is made to acquire lasting interest in an enterprise operating in an economy other than that of investor. The investor’s purpose is being to have an effective voice in the management of enterprise”. A foreign direct investment (FDI) is an investment in the form of a controlling ownership in a business in one country by an entity based in another country. It is thus distinguished from a foreign portfolio investment by a notion of direct control.

Apart from being a critical driver of economic growth, foreign direct investment (FDI) is a major source of non-debt financial resource for the economic development of India. Foreign

companies invest in India to take advantage of relatively lower wages, special investment privileges such as tax exemptions, etc. For a country where foreign investments are being made, it also means achieving technical know-how and generating employment. The Indian government’s favourable policy regime and robust business environment have ensured that foreign capital keeps flowing into the country. The government has taken many initiatives in recent years such as relaxing FDI norms across sectors such as defence, PSU oil refineries, telecom, power exchanges, and stock exchanges, among others.

2. OBJECTIVES OF THE STUDY

1. To know the inflows and share of investing countries of FDI.
2. To explore the Sector wise distribution of FDI inflows.
3. To rank the sectors based upon highest FDI inflows in India.
4. To view the top investment destinations in India, on the basis of state-wise rankings.

3. METHODOLOGY

To fulfil the objectives set-out, the secondary data were collected from NCAER report and FDI factsheet 2019. The present study is analytical in nature in the field of Foreign Direct Investment, with the sufficient background of secondary data and for interpretation simple percentage analysis have been used in this report.

CUMULATIVE FDI FLOWS INTO INDIA (2000-2019)

A. TOTAL FDI INFLOWS (from April, 2000 to March, 2019)

1.	CUMULATIVE AMOUNT OF FDI INFLOWS (Equity inflows + ‘Re-invested earnings’ + ‘Other capital’)	----	US\$ 609,838 Million
2.	CUMULATIVE AMOUNT OF FDI EQUITY INFLOWS (excluding, amount remitted through RBI’s NRI Schemes)	Rs. 2,378,353 Crore	US\$ 420,021 Million

Source: Computed Data

TABLE NO 1

B. FDI INFLOWS DURING FOURTH QUARTER OF FINANCIAL YEAR 2018-19 (JANUARY, 2019 TO MARCH, 2019)

1.	TOTAL FDI INFLOWS INTO INDIA (Equity inflows + ‘Re-invested earnings’ + ‘Other capital’) (as per RBI’s Monthly bulletin)s	----	US\$ 17,711 Million
2.	FDI EQUITY INFLOWS	Rs. 76,603	US\$ 10,874

		Crore	Million
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Source: Computed Data

TABLE NO 2

C. FDI EQUITY INFLOWS (MONTH-WISE) DURING THE FINANCIAL YEAR 2018-19(Amount of FDI Equity inflows)

FINANCIAL YEAR 2018-19 (APRIL-MARCH)	(IN RS. CRORE)	(IN US\$ MN)
April, 2018	35,104	5,348
May, 2018	30,479	4,513
June, 2018	19,597	2,891
July, 2018	19,025	2,770
August, 2018	17,441	2,508
September, 2018	33,472	4,635
October, 2018	34,595	4,698
November, 2018	12,495	1,739
December, 2018	31,056	4,391
January, 2019	31,181	4,408
February, 2019	20,404	2,865
March, 2019	25,019	3,601
2018-19 (form April, 2018 to March, 2019) #	309,867	44,366
2017-18 (form April, 2017 to March, 2018) #	288,889	44,856
%age growth over last year	(+) 7%	(-) 1%

Source: Computed Data (# Figures are provisional, subject to reconciliation with RBI, Mumbai)

TABLE NO 3

D. SHARE OF TOP INVESTING COUNTRIES FDI EQUITY INFLOWS (Financial years): Amount Rupees in Crores (US\$ in Millions)

RANKS	COUNTRY	2016-17 (APRIL – MARCH)	2017-18 (APRIL – MARCH)	2018-19 (APRIL – MARCH)	CUMULATIVE INFLOWS (APRIL, 00 - MARCH,19)	%AGE TO TOTAL INFLOWS (IN TERMS OF US \$)
1	MAURITIUS	105,587 (15,728)	102,492 (15,941)	57,139 (8,084)	738,156 (134,469)	32%
2	SINGAPORE	58,376 (8,711)	78,542 (12,180)	112,362 (16,228)	505,946 (82,998)	20%
3	JAPAN	31,588 (4,709)	10,516 (1,633)	20,556 (2,965)	173,332 (30,274)	7%

4	NETHERLANDS	22,633 (3,367)	18,048 (2,800)	27,036 (3,870)	162,251 (27,352)	7%
5	U.K.	9,953 (1,483)	5,473 (847)	9,352 (1,351)	140,370 (26,789)	6%
6	U.S.A.	15,957 (2,379)	13,505 (2,095)	22,335 (3,139)	146,372 (25,556)	6%
7	GERMANY	7,175 (1,069)	7,245 (1,124)	6,187 (886)	65,477 (11,708)	3%
8	CYPRUS	4,050 (604)	2,680 (417)	2,134 (296)	51,544 (9,869)	2%
9	UAE	4,539 (675)	6,767 (1,050)	6,356 (898)	39,310 (6,652)	2%
10	FRANCE	4,112 (614)	3,297 (511)	2,890 (406)	36,825 (6,643)	2%
TOTAL FDI INFLOWS FROM ALL COUNTRIES		291,696 (43,478)	288,889 (44,857)	309,867 (44,366)	2,378,886 (420,142)	-----

Source: Computed Data

TABLE NO 4

E. SECTORS ATTRACTING HIGHEST FDI EQUITY INFLOWS

RANKS	SECTOR	2016-17 (APRIL – MARCH)	2017-18 (APRIL – MARCH)	2018-19 (APRIL – MARCH)	CUMULATIVE INFLOWS (APRIL, 00 – MARCH,19)	% AGE TO TOTAL INFLOWS (IN TERMS OF US\$)
1	SERVICES SECTOR **	58,214 (8,684)	43,249 (6,709)	63,909 (9,158)	416,301 (74,149)	18%
2	COMPUTER SOFTWARE & HARDWARE	24,605 (3,652)	39,670 (6,153)	45,297 (6,415)	221,756 (37,238)	9%
3	TELECOMMUNICATIONS	37,435 (5,564)	39,748 (6,212)	18,337 (2,668)	188,249 (32,826)	8%
4	CONSTRUCTION DEVELOPMENT	703 (105)	3,472 (540)	1,503 (213)	119,614 (25,046)	6%
5	TRADING	15,721 (2,338)	28,078 (4,348)	30,963 (4,462)	143,599 (23,021)	5%

6	AUTOMOBILE INDUSTRY	10,824	13,461	18,309	123,989	
		(1,609)	(2,090)	(2,623)	(21,387)	5%
7	CHEMICALS (OTHER THAN FERTILIZERS)	9,397	8,425	13,685	91,062	4%
		(1,393)	(1,308)	(1,981)	(16,582)	
8	DRUGS & PHARMACEUTICALS	5,723	6,502	1,842	84,165	4%
		(857)	(1,010)	(266)	(15,983)	
9	CONSTRUCTION (INFRASTRUCTURE) ACTIVITIES	12,478	17,571	15,927	93,873	4%
		(1,861)	(2,730)	(2,258)	(14,805)	
10	POWER	7,473	10,473	7,330	77,889	3%
		(1,113)	(1,621)	(1,106)	(14,316)	

Source: Computed Data, ** Services sector includes Financial, Banking, Insurance, Non-Financial / Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis.

TABLE NO 5

F. DPIIT's – FINANCIAL YEAR-WISE FDI EQUITY INFLOWS

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

S.NO.	FINANCIAL YEAR	AMOUNT OF FDI INFLOWS		%AGE GROWTH OVER PREVIOUS YEAR (IN TERMS OF US \$)
		IN RS CRORES	IN US\$ MILLION	
FINANCIAL YEARS 2000-01 TO 2018-19				
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	181,682	29,737	(+) 22%
16.	2015-16	262,322	40,001	(+) 35%
17.	2016-17	291,696	43,478	(+) 9%
18.	2017-18	288,889	44,857	(+) 3%
19.	2018-19	309,867	44,366	(-) 1%
CUMULATIVE TOTAL (from April, 2000 to March, 2019)		2,378,887	420,142	

Source: Computed Data

TABLE NO 6**G. TOP INVESTMENTS DESTINATIONS IN INDIA
STATE – WISE RANKINGS, 2018**

RANKING	STATE	CHANGE IN RANKING, COMPARED TO 2017
1	Delhi	+1
2	Tamil Nadu	+4
3	Gujarat	-2
4	Haryana	0
5	Maharashtra	+3
6	Kerala	+1
7	Andhra Pradesh	-4
8	Telangana	-3
9	Karnataka	0
10	West Bengal	+11
11	Rajasthan	+2
12	Punjab	+4
13	Madhya Pradesh	-3
14	Chhattisgarh	0
15	Uttarakhand	-3
16	Himachal Pradesh	-1
17	Odisha	-6
18	Uttar Pradesh	+2
19	Assam	-2
20	Jharkhand	-2
21	Bihar	-2

Source: National Council for Applied and Economic Research, (NCAER), 2018.

TABLE NO 7**4. CONCLUSION**

The main objective of this paper is to trace the Foreign Direct Investment and its impact in our country, their flow trend, inflows, sector-wise equity inflows, top investing countries and their rankings and the fast and steadily growing economy of India in majority of its sectors, has made India one of the most famous and popular destinations in the whole world, for Foreign Direct Investment. India's ever-expanding markets, liberalization of trade policies, development in technology and telecommunications and loosening of diverse foreign investment restrictions, have further collectively made India, the apple of investor's eye, for most productive, profitable, and secure foreign investment. FDI is unavoidable in the context of Indian economy and their expansion of domestic industrial base and effective regulation helps the growth of Indian economy.

5. REFERENCES

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