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AN ANALYTICAL STUDY ON FOREIGN DIRECT INVESTMENT IN INDIA

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Abstract

Every country's growth is dependent upon the utilization of the scarce resources that it have. One way to multiply the growth is to increase the resources and to upgrade the technology and this can be possible by attracting the resources from various countries to the host country. Foreign investment is the concept related to the employability of the funds from the rest of the world into the host country's investment avenues that can be land, business, stock etc. Foreign investment can be foreign Direct Investment or portfolio investment. The present study focuses on the current Foreign Direct Investment framework of India, major initiatives to attract FDI in India and the countries contributed majorly in some of the core sectors of the India. Secondary data are taken for the study and it is found that liberal policy is being followed as well as various incentives are being taken by the government to attract more FDI In India and Mauritius is being the leader for so many years till now and as far as sector is concerned Service sector is highly attracted sector for foreigners to invest in India for approximately 18 years.

Key-Words: Foreign Direct Investment, Framework, Initiatives, Liberal, Portfolio.

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Introduction

Foreign Direct Investment (FDI) is an investment made by a company or individual in one country in business interests in another, in the form of either establishing business operations or acquiring business assets in the other country , such as ownership or controlling interest in a foreign company. The key feature of FDI is that it is an investment made that establishes either effective control of, or at least substantial influence over, the decision making of a foreign business. Foreign direct investment in India can be made by two routes either through automatic route or through government approved route. Under automatic route no prior permission is required by government and related agencies but through government route prior permission of the foreign promotion board, central government and other agencies is required.

Review of Literature

Singh Kr. Arun and Agarwal P.K., (2012) "Foreign direct investment: The big bang in Indian retail". In this article they have studied the relation of foreign investment and Indian retail business. The study is based on different literatures, case studies and analysis of organised retail market. The author discusses the policy development for FDI in the two retail categories: single brand and multi brand. The author concludes that FDI in multi brand retail should be considered, better technology and employment. The paper also concludes that openness of FDI in India would help India to integrate into worldwide market.

Dr. Mamata Jain and Mrs. Meenal Lodhana Sukhlecha, (2012), "FDI in multi brand retail: Is it the need of the hour?" The paper studies the need of the retail community to invite FDI in retailing. The study is under taken through analysis of positive and negative impacts of reforms. The study shows various advantages of FDI, which suggests for foreign participation in retailing, but the author also suggests that the ceiling should not exceed 51% even for single brands to ensure check and control on business operations.

Rajalakshmi K. and Ramachandran F., (2011), "Impact of FDI in India's automobile sector with reference to passenger car segment." The author has studied the foreign investment flows through the automobile sector with special reference to passenger cars. The research methodology used for analysis includes the use of ARIMA, coefficient, linear and compound model. The period of study is from 1991to 2011. This paper is an empirical study of FDI flows after post liberalisation period. The author has also examined the trend ad composition of FDI flow and the effect of FDI on economic growth. The author has also identified the problems faced by India in FDI growth of automobile sector through suggestions of policy implications.

Dr. S N Babar and Dr. B V Khandare, (2012), "Structure of FDI in India during globalisation period". The study is mainly focused on changing structure and direction of India's FDI during globalisation period. The study is done through analysis of benefits of FDI for economic growth. The study has been done through sect oral analysis of FDI participation, as well as through study of country wise flow of foreign inflow in India till 2010.

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.

Sandeep kaur (2017) she concluded that foreign investments boost the growth of India and India will be able to attract more FDI in future due to various new favourable norms coming in the future.

S. Bulomine Regi and S. Anthony Rahul Golden (2014), they concluded that besides many reasons like employment, capital formation, Research and development etc. FDI is the vital reason for the integration of the world economy.

Statement of the Problem

After the economic reforms of 1991 and a remarkable initiative of make in india the trade and economic structure of the country got a drastic change one of them is the foreign direct investment. Over the period of time several amendments has been made in policy and various initiatives took to increase the investments from various countries in various sectors among the country, So despite having the liberal policy is there also corresponding increase in FDI from various countries towards the major sectors or not is the focus area of the research paper.

Objectives

1. To study the FDI policy framework In India.
2. To determine the countries which are having highest FDI contribution in equity and to determine the sectors which are attracting highest FDI contribution in equity after make in India initiative.
3. To study the major government incentives for FDI in India.

Research Methodology

In the present study, secondary data is used & the data has been collected from websites, journals, newsletter and annual reports of Reserve Bank of India and Department Of Industrial Policy and Promotion. The present study is exploratory cum descriptive in nature. The method of data analysis is used includes the comparison of collected data which is presented in the form of tables. Contribution in financial inclusion is compared as a relative concept. The study is limited to a sample of 3 years to compare and 18 years as a whole from 2000-2017 (up to December).

ANALYSIS AND INTERPRETATION

A. FDI POLICY FRAMEWORK IN INDIA

1. ROUTES

Foreign Direct Investment to India is being structured through two routes that is Automatic route and Government approved route.

- **Automatic route** - It is the route through which residents outside India may invest in India without any prior approval of the Government or without being bound to any of the stipulated terms and conditions.
- **Government approved route** - It is the route whereby if any of the resident outside India wants to invest in India has to take prior approval of the Government and must follow the stipulated Norms regarding foreign Direct Investment.

2. METHODS

- **By Incorporating A Wholly Owned Subsidiary Or Company**

When one company undertakes the 100% shares of the other company and have a full or partial control over the board of directors than it is the holding of the company whose shares are undertaken.

- **By Acquiring Shares in Associated Enterprise**
- **Through A Merger Or An Acquisition Of An Unrelated Enterprise**

The transferor and the transfer companies must consider the sectoral caps, entry routes and permitted sectors while going for merger or amalgamation.

- **Participating In An Equity Joint Venture With Other Enterprise.**

3. INVESTORS

- Any nonresident entity may invest in India other than in those sectors which are prohibited by the law
- Any citizen of Bangladesh or entity incorporated in Bangladesh may invest in India but only through government approved route, same in the case of Pakistan's citizen and entities.
- Any resident of Nepal and Bhutan may invest in India but on repatriation basis.
- Only registered FPI/NRI can make an investment through registered brokers.
- SEBI registered foreign venture capital investors can make an investment upto 100%.

4. PROHIBITED SECTOR

- Chit funds
- Nidhi Company

- Gambling and Betting (Casinos)
- Lottery business (private, government and online lotteries)
- Production of cigars, cheroots, tobacco substitute etc
- Real estate business or construction of farm house except development of township, roads, bridges etc
- Sectors prohibited for private investment i.e. atomic energy and railway operation
- Trading in Transferable Development rights.

5. PERMITTED SECTORS

Table-1
Automatic Route

S.No.	Sector/Activity	Relevant Para of Consolidated FDI Policy, June 2016	Cap
1.	Agriculture	5.2.1	100%
2.	Plantation Sector	5.2.2	100%
3.	Mining of metal and non-metal ores	5.2.3.1	100%
4.	Mining – Coal & Lignite	5.2.3.2	100%
5.	Manufacturing	5.2.5	100%
6.	Food Product Retail Trading	5.2.5	100%
7.	Broadcasting Carriage Services (Teleports, DTH, Cable Networks, Mobile TV, HITS)	5.2.7.1	100%
8.	Broadcasting Content Service - Up-linking of Non-'News & Current Affairs' TV Channels/Down-linking of TV Channels	5.2.7.2.3	100%
9.	Airports – Greenfield	5.2.9.1 (a)	100%
10.	Airports – Brownfield	5.2.9.1 (b)	100%
11.	Air Transport Service – Non Scheduled	5.2.9.2 (2)	100%
12.	Air Transport Service - Helicopter Services/Seaplane Services	5.2.9.2 (3)	100%
13.	Ground Handling Services	5.2.9.3 (1)	100%
14.	Maintenance and Repair organizations; flying training institutes; and technical training institutions	5.2.9.3 (2)	100%
15.	Construction Development	5.2.10	100%
16.	Industrial Parks -new and existing	5.2.11	100%
17.	Trading – Wholesale	5.2.15.1	100%
18.	Trading – B2B E-commerce	5.2.15.2	100%
19.	Duty Free Shops	5.2.15.5	100%
20.	Railway Infrastructure*	5.2.16	100%

Source: DIPP

Table-2
Government Route

S. No.	Sector/Activity	Relevant Para of Consolidated FDI Policy, June 2016	Cap	Govt. Approval
1.	Mining and mineral separation of titanium bearing minerals and ores	5.2.3.3	100%	Upto 100%
2.	Food Product Retail Trading	5.2.5	100%	Upto 100%
3.	Defence	5.2.6	100%	Beyond 49%
4.	Publishing/printing of scientific and technical magazines/specialty journals/ periodicals	5.2.8.3	100%	Upto 100%
5.	Publication of facsimile edition of foreign newspapers	5.2.8.4	100%	Upto 100%
6.	Print Media - Publishing of newspaper and periodicals dealing with news and current affairs	5.2.8.1	26%	Upto 26%
7.	Print Media - Publication of Indian editions of foreign Magazines dealing with news and current affairs	5.2.8.2	26%	Upto 26%
8.	Air Transport Service – Scheduled, and Regional Air Transport Service,	5.2.9.2(1)	100%	Beyond 49%
9.	Investment by Foreign Airlines	5.2.9.2	49%	Upto 49%
10.	Satellites- establishment and operation	5.2.12	100%	Upto 100%
11.	Telecom Services	5.2.14	100%	Beyond 49%
12.	Trading - SBRT	5.2.15.3	100%	Beyond 49%
13.	Pharma – Brownfield	5.2.27.2	100%	Beyond 74%
14.	Banking- Private Sector	5.2.18	74%	Beyond 49%
15.	Banking- Public Sector	5.2.19	20%	Upto 20%
16.	Private Security Agencies	5.2.13	74%	Beyond 49%
17.	Broadcasting Content Service a) FM Radio b) Uplinking of 'News & Current Affairs' TV Channels	5.2.7.2.1 5.2.7.2.2	49%	Upto 49%
18.	Trading – MBRT	5.2.15.4	51%	Upto 51%

Source: DIPP

A) Countries and Sectors having Highest FDI

Amount Rupees in Crores (US$ in Million)

Ranks	*Country*	*2015-16 (April – March)*	*2016-17 (April – March)*	*2017-18 (April,17– December, 17)*	*Cumulative Inflows (April, 00 - December,17)*	*%age to total Inflows (in terms of US $)*
1.	**Mauritius**	54,706 **(8,355)**	105,587 **(15,728)**	85,783 **(13,348)**	671,734 **(124,986)**	34%
2.	**Singapore**	89,510 **(13,692)**	58,376 **(8,711)**	59,392 **(9,213)**	374,434 **(63,803)**	17%
3.	**Japan**	17,275 **(2,614)**	31,588 **(4,709)**	8,140 **(1263)**	150,399 **(26,938)**	7%
4.	**U. K.**	5,938 **(898)**	9,953 **(1,483)**	4,654 **(720)**	130,199 **(25,311)**	7%
5.	**Netherlands**	17,275 **(2,643)**	22,633 **(3,367)**	15,363 **(2,383)**	132,529 **(23,065)**	6%
6.	**U.S.A**	27,695 **(4,192)**	15,957 **(2,379)**	11,242 **(1,744)**	121,774 **(22,067)**	6%
7.	**Germany**	6,361 **(986)**	7,175 **(1,069)**	6,522 **(1012)**	58,567 **(10,710)**	3%
8.	**Cyprus**	3,317 **(508)**	4,050 **(604)**	2,142 **(332)**	48,872 **(9,488)**	3%
9.	**France**	3,937 **(598)**	4,112 **(614)**	2,948 **(457)**	33,585 **(6,182)**	2%
10.	**UAE**	6,528 **(985)**	4,539 **(675)**	4,056 **(628)**	30,243 **(5,332)**	1%
Total FDI Inflows from all Countries *		262,322 **(40,001)**	291,696 **(43,478)**	231,457 (35,941)	2,019,012 **(368,053)**	-

Source: DIPP

- According to this statistics it has been concluded that among so many countries in the world, India's Foreign Direct Investment is mainly ruled by Mauritius. Among past many years , highest inflow of FDI to India is from Mauritius i.e. 671,734, which is 34% of the total FDI inflows in India. Further Singapore is also playing a crucial role for the same by attracting FDI of 374434 , which is 17% of the total FDI inflows followed by Japan and UK with FDI inflows of 150399 and 130199 respectively contributing 7% of the total FDI inflows. UAE has the most insignificant contribution towards the FDI inflow that is only 1% of the total FDI inflow.

Amount Rupees in Crores (US$ in Million)

Ranks	Sector	2015-16 (April – March)	2016-17 (April – March)	2017-18 (April,17– December, 17)	Cumulative Inflows (April, 00 - December, 17)	% age to Total Inflows (In Terms of US$
1.	Services Sector **	45,415 (6,889)	58,214 (8,684)	29,819 (4,620)	346,387 (64,097)	17 %
2.	Telecommunications	8,637 (1,324)	37,435 (5,564)	39,264 (6,136)	169,428 (30,082)	8 %
3.	Computer Software & Hardware	38,351 (5,904)	24,605 (3,652)	33,246 (5,156)	170,035 (29,825)	8 %
4.	Construction Development: Townships, Housing, Built-up Infrastructure	727 (113)	703 (105)	2,453 (381)	117,092 (24,674)	7 %
5.	Automobile Industry	16,437 (2,527)	10,824 (1,609)	11,202 (1,739)	103,421 (18,413)	5 %
6.	Trading	25,244 (3,845)	15,721 (2,338)	14,649 (2,274)	99,207 (16,485)	4 %
7.	Drugs & Pharmaceuticals	4,975 (754)	5,723 (857)	5,662 (878)	81,482 (15,585)	4 %
8.	Chemicals (other than Fertilizers)	9,664 (1,470)	9,397 (1,393)	7,327 (1,137)	76,279 (14,430)	4 %
9.	Power	5,662 (869)	7,473 (1,113)	8,912 (1,378)	68,999 (12,967)	4 %
10	Construction (Infrastructure) Activities	29,842 (4,511)	12,478 (1,861)	16,345 (2,540)	76,720 (12,357)	3 %

Source: DIPP

- Service sector is by far the top most sectors to attract highest FDI to India, further supported by telecommunication, computer software and hardware. Cumulative FDI inflows to India through service sector is 346,387 i.e. 17% of the total inflows, whereas telecommunication sector has contribution of 169428 i.e. 8% of the total inflows along with the computer hardware and software sector that is contributing 170035 i.e. also 8% of the total inflows. Construction (infrastructure) services are the least towards contribution i.e. only 3% of the total contribution.

"This statistics concluded that there are only selected companies and selected sector that are basically contributing towards India's Foreign Direct Investment but there must be higher contribution by the rest of the sectors too for comprehensive development of country".

C.) Major Government Incentives

1. Area based incentives - for units set up in specific areas like Jammu and Kashmir , Himachal Pradesh etc
2. Sector specific Incentive
3. Export incentives like duty exemption etc
4. Exemption to units set up in special economic zones, National investment and manufacturing zones and export oriented units.
5. State government differentiated incentive policy - different in each state
6. Stamp duty exemption, exemption of VAT etc
7. Investment allowance of 15% to manufacturing units which invest more than INR 1 billion in plant and machinery till to 31-3-2015
8. States to strengthen single window clearance system
9. Convenient approval mechanism for FDI by ministry of commerce and industry.
10. Infrastructure development in India's North Eastern states by alliance with Japan
11. Exemption by CBDT for ESOP, FDI and court approved long term capital gains.

Conclusion

Hence it can be concluded that After economic reforms of 1991 India's FDI has taken a shift tremendously. With the central and state government's combined effort India has become the most attractive destination for investment by the rest of the world. Among the countries Mauritius seems most interested in India's investment avenues and among the sectors service sector has succeeded to attract highest FDI. Simplification of procedures and creation of infrastructure is being focused by the Indian government to make India a more vulnerable destination for FDI.

Suggestions

1. More efforts should be done to improvise the infrastructure so that India could become a favourable Destination for the foreign investors.
2. India's tax procedures are a bit complex to be followed by the corporates and investors who are not resident in India, so simplification of the tax procedures should be there.
3. The procedure of investment in India and the stipulations should be a bit convenient so that procedural inefficiency can't be a hurdle in Foreign Direct Investment.
4. Many sectors in India have further scope of FDI, but due to low equity caps they are untapped so equity caps expansion must be there.
5. Human resource is that active resource which can make judicious use of passive resource, so the more skilled and efficient labour can attract higher FDI to India.

Limitations of the Study

The study is limited to a sample of 3 years for comparison and 18 years as whole. Hence more evidences will be needed in order to generalize the results. The study has a further scope of research.

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