© INNOVATIVE RESEARCH THOUGHTS | REFEREED | PEER REVIEWED
ISSN : 2454 – 308X | Volume : 03 , , Issue : 05 | July - September 2017

Foreign Direct Investment: Impact on Indian Economy

Dr. Kavita Saxena

Associate Professor, Department of Economics

D.N. (PG) College, Meerut, ks96735@gmail.com

Abstract

When a foreign investor invests in a business operating in a different economy than their own, they are known as "foreign direct investment" (FDI), or foreign investment. All long-term and short-term capital that a company has as evidenced in its balance of payments is included in this total figure. Participation in management, joint venture, transfer of technology and experience are all common ways in which it may be done. Foreign Direct Investment (FDI) is divided into two categories: "Inward Foreign Direct Investment" and "Outward Foreign Direct Investment," both of which lead to a net FDI inflow (positive or negative) and "Stock of Foreign Direct Investment." Investing directly does not include stock purchases. Foreign direct investment (FDI) is a kind of international factor movement that occurs. An investment in a foreign firm, often one that is owned by the foreign corporation. The simplest definition of FDI would be a company making a direct investment in another country's business. As a consequence of globalisation, FDI has increased dramatically in developing countries, particularly in Asia, during the previous two decades. The attractiveness of a more free policy environment has lasted despite India's late entry into the FDI arena, and it has a considerable market potential in comparison to other East Asian countries. A top choice for international speculators. The purpose of this study is to investigate the foreign investment's (FDI) influence on India's economy, especially after to place itself in an advantageous position in terms of economic changes and challenges There is a worldwide rivalry for foreign direct investment. Major policy decisions are made in this document.

Key Words : FDI, Capital, Economics etc.

Objectives:

- “To study the trends and pattern of flow of FDI.
- To study the FDI Policy in India
- To study the Share of Top Investing Countries FDI Equity Inflows
- To know the flow of investment in India”

Introduction

Financial inflows from overseas that are invested in or used to increase the economic output of a country are known as foreign direct investment (FDI). FDI and economic growth have long been hotly debated topics in the international development community. The stability of FDI appears as an efficient avenue for quicker development in developing nations in an age of turbulent global capital flows. International investment is critical to the long-term growth of countries, not just as a source of cash and expertise, but also for improving the home economy's competitiveness and creating new job possibilities. In India, foreign direct investment (FDI) is seen as a development instrument that aids the country's economic growth by enabling it to become self-sufficient in a variety of industries.

Foreign direct investment poured into India when it opened up its economy to the rest of the world in 1991. In developing nations like India, foreign direct investment (FDI) is typically seen as a key driver of economic progress. FDI stimulates domestic investment, increases human capital creation, and facilitates knowledge transfer in the host nations, all of which contribute to economic growth.

Foreign Direct Investment in India

A recent UNCTAD poll predicted that India will be the second most popular destination for foreign direct investment (FDI) after China by the years 2010-2012, based on a 1990 baseline of less than $1 billion. The data shows that services, telecommunications, construction, and computer software and hardware were the industries with the highest inflows. FDI from Mauritius, Singapore, the United States, and the United Kingdom were among the most common. The amount of foreign direct investment (FDI) in the United States in 2009-10 fell by five percent from the previous year's total of USD 27.33 billion. According to figures issued by the industry department, foreign direct investment in August fell by over 60% to around USD 34 billion, the lowest level in the 2010 fiscal year. All-time high FDI influx into India of $7.78 billion was recorded in the first two months of the 2010-11 fiscal year, an increase of 77 percent over the previous year.

FDI Policy in India

Dictionary of Economics defines Foreign Direct Investment (FDI) as "investment in a foreign nation via the purchase of a local firm or by establishing a new operation on the site of an existing business." To put it another way, foreign direct investment (FDI) is money that comes into a country with the intention of being invested in or used to boost the country's manufacturing capability. The Foreign Exchange Management Act (FEMA) 1999 and the FDI policies published by the Government of India control foreign investment in India. The Foreign Exchange Management (Transfer or Issue of Security by a Person Residing Outside India) Regulations, 2000 were published by the Reserve Bank of India (the "RBI"). In the course of time, this notice has been updated. The Government of India's Ministry of Commerce and Industry is in charge of overseeing the country's transportation sector's FDI policy and any adjustments to the sector-specific equity limit. The SIA (Secretariat for Industrial Assistance) of the Department of Industrial Policy and Promotion (DIPP) issues press releases announcing the FDI policy (DIPP). For the most part, international investors may invest in India without prior authorisation from the Reserve Bank of India (RBI) or Foreign Investment Promotion Board (known as FIPB).

Findings

Foreign investors have been flocking to India for a long time. Telecommunications, construction, and computer hardware and software have all seen significant influxes of foreign investment into India. According to a survey by AT Kearney, India ranks third in the worldwide FDI Confidence Index. Third position is held by investors in Europe and North America; fourth place is held by investors based in the Asia-Pacific region. Non-financial services investments are very strong in India, as are investments in heavy industry, light industry, and financial services. Foreign Direct Investment (FDI) inflows to India increased from US$25.1billion in 2007 to US$41.6billion in 2008, despite the global economic crisis. Investors from all over the globe are drawn to the government's efforts to liberalise FDI regulations in 1991.

TOTAL FDI INFLOWS (from April, 2000 to March, 2016):

1.	**CUMULATIVE AMOUNT OF FDI INFLOWS** (Equity inflows + 'Re-invested earnings' +'Other capital')	-	US$ 424,167 Million
2.	**CUMULATIVE AMOUNT OF FDI EQUITY INFLOWS** (**excluding**, amount remitted through RBI's NRI Schemes)	Rs. 1,495,326 crore	US$ 288,513 Million

Sources: Fact Sheets on FDI, DIPP

Source of FDI

In 2008, India has 120 countries on its list of investment destinations, up from 15 in 1991. There are several sources of foreign direct investment (FDI) in India, however the majority of the FDI comes from a small number of nations. Over the period 1991-2008, Mauritius was the nation that invested the most in India. The United States, Singapore, the United Kingdom, the Netherlands, Japan, Germany, Cyprus, France, and Switzerland are among the other prominent investors. More than half of the country's FDI inflows come from only five countries: Mauritius, the United States, Singapore, the United Kingdom, and the Netherlands, according to an examination of FDI inflows during the previous eighteen years. Investors from Mauritius and the United States retain the top two spots in India's foreign direct investment (FDI) rankings.

Top investing countries share

Amount Rupees in crores (US$ in million)

Ranks	Country	2013-14 (April - March)	2014-15 (April – March)	2015-16 (April,15 – March, 16)	Cumulative Inflows (April '00 - March '16)	%age to total Inflows (in terms of US $)
1.	MAURITIUS	29,360 (4,859)	55,172 (9,030)	54,706 (8,355)	480,363 (95,910)	33 %
2.	SINGAPORE	35,625 (5,985)	41,350 (6,742)	89,510 (13,692)	256,667 (45,880)	16 %
3.	U.K.	20,426 (3,215)	8,769 (1,447)	5,938 (898)	115,592 (23,108)	8 %
4.	JAPAN	10,550 (1,718)	12,752 (2,084)	17,275 (2,614)	110,671 (20,966)	7 %
5.	U.S.A.	4,807 (806)	11,150 (1,824)	27,695 (4,192)	94,575 (17,943)	6 %
6.	NETHERLANDS	13,920 (2,270)	20,960 (3,436)	17,275 (2,643)	94,533 (17,314)	6 %
7.	GERMANY	6,093 (1,038)	6,904 (1,125)	6,361 (986)	44,870 (8,629)	3 %
8.	CYPRUS	3,401 (557)	3,634 (598)	3,317 (508)	42,681 (8,552)	3 %
9	FRANCE	1,842 (305)	3,881 (635)	3,937 (598)	26,525 (5,111)	2 %
10.	UAE	1,562 (255)	2,251 (367)	6,528 (985)	21,648 (4,030)	1 %
TOTAL FDI INFLOWS FROM ALL COUNTRIES *		147,518 (24,299)	189,107 (30,931)	262,322 (40,001)	1,495,859 (288,634)	-

**Includes inflows under NRI Schemes of RBI.*

Note: (i) Cumulative country-wise FDI equity inflows (from April, 2000 to March, 2016) are at – Annex-'A'.
(ii) %age worked out in US$ terms & FDI inflows received through FIPB/SIA+ RBI's Automatic Route + acquisition of existing shares only.

Sectors wise Highest FDI Inflows:

Amount in Rs. crores (US$ in million)

Ranks	Sector	2013-14 (April - March)	2014-15 (April- March)	2015-16 (April,15 – March, 16)	Cumulative Inflows (April '00 - March '16)	% age to total Inflows (In terms of US$)
1.	SERVICES SECTOR **	13,294 (2,225)	27,369 (4,443)	45,415 (6,889)	258,354 (50,792)	18 %
2.	CONSTRUCTION DEVELOPMENT: TOWNSHIPS, HOUSING, BUILT-UP INFRASTRUCTURE	7,508 (1,226)	4,652 (769)	727 (113)	113,936 (24,188)	8 %
3.	COMPUTER SOFTWARE & HARDWARE	6,896 (1,126)	14,162 (2,296)	38,351 (5,904)	112,184 (21,018)	7 %
4.	TELECOMMUNICATIONS (radio paging, cellular mobile, basic telephone services)	7,987 (1,307)	17,372 (2,895)	8,637 (1,324)	92,729 (18,382)	6 %
5.	AUTOMOBILE INDUSTRY	9,027 (1,517)	16,760 (2,726)	16,437 (2,527)	81,394 (15,065)	5 %
6.	DRUGS & PHARMACEUTICALS	7,191 (1,279)	9,052 (1,498)	4,975 (754)	70,097 (13,849)	5 %
7.	CHEMICALS (OTHER THAN FERTILIZERS)	4,738 (878)	4,658 (763)	9,664 (1,470)	59,555 (11,900)	4 %
8.	TRADING	8,191 (1,343)	16,755 (2,728)	25,244 (3,845)	68,837 (11,872)	4 %
9.	POWER	6,519 (1,066)	4,296 (707)	5,662 (869)	52,613 (10,476)	4 %
10	HOTEL & TOURISM	2,949 (486)	4,740 (777)	8,761 (1,333)	49,710 (9,227)	3 %

Note: *(i)** Services sector includes Financial, Banking, Insurance, Non-Financial / Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis*

(ii) Cumulative Sector- wise FDI equity inflows (from April, 2000 to March, 2016) are at - Annex-'B'.

(iii) FDI Sectoral data has been revalidated / reconciled in line with the RBI, which reflects minor changes in the FDI figures (increase/decrease) as compared to the earlier published sectoral data.

Sources: Fact Sheets on FDI, DIPP

FDI- Sectoral Analysis

Inflows of foreign direct investment (FDI) are now accepted in 63 industries, up from 16 in 1991. Up to 2010, the service sector and the software and hardware industries each received 22.14 percent and 9.48 percent of total FDI inflows, respectively. Then came the telecommunications, real estate, building, and car industries. Manufacturing, information, and professional, scientific, and technical services were the most popular industries for M&A activity in India.

Conclusion

When India's regulatory economic policies were overhauled to allow more foreign direct investment (FDI), the amount of FDI flowing into the economy surged to a structurally unprecedented level, which lasted for many years.

There has been an up-and-down pattern recently. Indian infrastructure might be secured by FDI, allowing for a fast expansion of India's capital base. India's ability to attract foreign direct investment (FDI) in the long term is a favourable development. But there are certain drawbacks, such as the impact on local communities and the threat to domestic businesses from international competition. The Government should modify the sectoral cap and expand the automatic route to include additional sectors. In order to boost bilateral trade, India should also establish agreements on double taxation with foreign nations. The Government of India must thus implement innovative policies and excellent corporate governance procedures on par with international norms in order to attract more and more foreign money into different sectors of the economy and make India a developed economy.

References:

[1] Basu P., Nayak N.C, Archana (2007): "Foreign Direct Investment in India:Emerging

[2] Horizon", Indian Economic Review, Vol. XXXXII. No.2.

[3] Ms. Sapna hooda (2011) a study of FDI and Indian Economy;Doctor of philosophy from national institute of technology(deemed university) Haryana.

[4] Bhandari, L.S Gokara. A. Tandon (2002), „Background paper: Reforms and foreign direct investment in India" DRC working paper: Reforms and foreign direct.

[5] Balasubramanyam V.N, Sapsford David (2007): "Does India need a lot more

FDI", Economic and Political Weekly.

[6] www.google.co.in