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A TREND ANALYSIS OF FOREIGN DIRECT INVESTMENT IN INDIA FOR THE PERIOD (2004-2015)

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Abstract
In today's liberalized world, inclusive growth and economic prosperity is the ultimate priority for any democracy. Each country's policy and initiatives are focused towards this objective and successive Governments ensure that these initiatives are sustainable, by reviewing their policies periodically, to make it more meaningful. In doing so, these countries try to attract a lot of investments from domestic and foreign investor communities. Several empirical studies indicate that most of the economies have realized that new investments can propel growth, create new jobs, improve standard of living of ordinary citizens in a country. However, on closer observation, the scenarios are different in developed and underdeveloped economies of the world. Most of the under-developed economies aspire for huge investments in their country for increasing the income levels of people and improve the infrastructure set-ups compared to their developed counterparts. To substantiate the same, we can consider how developing economies like Brazil, India and China have attracted huge investments for themselves and have scaled up to levels of challenging the developed economies. One common objective of these economies was to attract a large quantum of Foreign Direct Investments (FDI) over several years now. The aim of this paper is study how India benefited from attracting Foreign Direct Investments (FDI) over the period of 2004-2015. The period is significant because of it has seen three Governments change under it. Further, the paper focuses on the sectors which attracted the maximum foreign direct investments and the countries which contributed the most by investing in India. The paper tracks only the Foreign Direct Investments made in India. It is now important for Governments, to constantly track the FDI figures on a regularly basis, as it is a serious impetus for an economy's growth.

Key Words: Foreign Direct Investment, Developed and Developing Countries, Benefits.

INTRODUCTION
In last few decades, one of the prominent features has been the emergence of the Foreign Direct Investments (FDI) and its remarkable growth since 1980s, and the market for it has become much more intense in the world. Investors, in particular seek more assets to invest and surely the developing economies had proved as the attractive destination for these investments. This is because the developing economies have a wide range of “created” assets to offer. This is in-fact proving to be a critical success factors (CSF) for developing economies, while measuring their success in attracting FDI in their respective countries. Another important factor which contributes to the growth of FDI is the increasing adoption of industrialization by the developing economies like India, China and Brazil and also smaller economies like Indonesia, Bangladesh, etc. The impact of foreign direct investments on these countries growth has been phenomenal.

IMPORTANCE OF FDI - FDI brings in a lot of benefits for developing countries. Below are some of the assistance that FDI brings along with it:

- Investments in production facilities
- Niche technologies
- High-end resources
- Capital formation
- Skills
- Organizational practices
- Managerial practices
- Instant reach to international markets
- Networking

The above factors are critical for all domestic firms to scale their size and grow in terms of their capabilities. If a domestic firm establishes an extensive tie-up with international firms, there would be increased supply and distribution connectedness. This ensures that the domestic firm can enhance their capability in terms of production, technology, competitiveness in their respective line of activity.

OBJECTIVES OF THE STUDY
FDI is most important factor increase a country’s output. FDI after liberalization is increased considerably, as many developed countries have invested in India. Through this study, FDI in world countries can be observed. So this study reveals Indias FDI position and helps to understand its share on total economic activity on India.

The Main objectives of the paper are:

1. To study the impact of New liberalization policy (1991) on real economic activity
2. To analyze the growth of foreign Direct Investment and real economic activity.
3. To make suitable suggestions to the policy makers.

LIMITATIONS OF THE STUDY

- Short term analysis was not made by using monthly or quarterly data due to the unavailability of frequent data, therefore annual analysis have been used to see the long term impact.
- The study is based on purely secondary data; it has certain limitations which are bound to arise while dealing with it.
- This is based on the assumption of cetris peribus i.e, that all other factors that are having impact on Indian economy are considered to be constant.

DETERMINANTS OF FDI IN A HOST COUNTRY

It is evident and imminent that the developing countries have understood and realized the fruits of increasing FDI flows in their countries. To ensure that they sustain, it is important to note, certain determinants of FDI, which primarily influences the choices of foreign investors.

Some of the determinants identified are:

- Policy framework with respect to FDI
- Economic considerations
- Hassle-free facilitation for Businesses
- Conducive Government -political stability
- Safeguard of investments
- Stable tax regime
- Infrastructure

FDI IN DEVELOPING COUNTRIES

One of the pros of foreign direct investments for the developing countries is that it has become one of the important sources of private and external finance options. It is unlike other major types of external capital flows as it is highly influenced by the long-term profit motives of the investors, in the production activities that they directly control. Foreign bank lending and portfolio investments, in contrast, are not invested in activities controlled by banks or portfolio investors, which are often motivated by short-term profit considerations that can be influenced by factors like interest rates (for example) and are prone to crowd behavior. FDI inflows in 1997 to the five most affected countries, during the financial turmoil in 1997, remained positive in all cases and declined only slightly for the group, whereas bank lending and portfolio equity investment flows declined sharply and even turned negative in 1997.

INWARD AND OUTWARD FDI FLOWS

Data sourced from UNCTAD, as given below point out the revolutionary shift in terms of FDI flows from the Developed economies to the Developing economies. Inward and outward FDI flows were at USD 423,905 million in the developed economies in 2004 and it was USD 284,619 million in the developing economies. However, the data points out the increasing traction in the FDI flows into the developing economies from 2009 onwards. In 2013, the FDI flows were at USD 565,628 million in the developed economies and it was USD 778,372 million in the developing economies(Table-A). According to the UNCTAD classification, the developed economies includes countries like Canada, United States, Japan, Austria, Belgium, France, Germany, Italy, United Kingdom, etc.

The developing economies, according to UNCTAD classification, include countries like Africa, Mexico, Brazil, China, India, etc.

Table A - Inward and Outward FDI flows

Year	Developed Economies (US$ Million)	Developing Economies (US$ Million)
2004	423,905	284,619
2005	622,872	341,428
2006	988,229	432,869
2007	1,322,795	591,161

2008	1,032,385	668,758
2009	618,596	532,580
2010	703,474	648,208
2011	880,406	724,840
2012	516,664	729,449
2013	565,626	778,372

Source: UNCTAD

FDI IN THE SELECTED ASIAN COUNTRIES DURING 2004-2013

Among the developing economies, the concentration of FDI has been in the Asian countries, where ASEAN and China hold an important position (Table-B). One other reason that worked in favor of these countries has been the rise in the competition, higher prices, increasing wages and currency appreciation in other countries. Further the growing market size is another important factor worked in favor of these host countries.

Table B: Foreign Direct Investment in the Selected Asian Countries during 2004-2013

Country/ Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total 2004-2013 **(US$ Million)**
China	60630	72406	72715	83521	108312	95000	114734	123985	121080	123911	976294
Singapore	24390	18090	36924	47733	12201	23821	55076	50368	61159	63772	393534
Malaysia	4624	4065	6060	8595	7172	1453	9060	12198	10074	12306	75607
Thailand	5589	8067	9501	11359	8455	4854	9147	3710	10705	1946	73333
India	5778	7622	20328	25350	47139	35657	27431	36190	24196	28199	257890
Indonesia	1896	8336	4914	6928	9318	4877	13771	19241	19138	18444	106863

Source: UNCTAD

THE HISTORY OF INDIA IN FDI

Globally, India is considered as one of the success stories of Foreign Direct Investments. Foreign investments, post the 1991globalization policies, propelled India in terms of economic growth. There has been a wholesome growth in the economy. India still proves to be one of the favorable destinations world-wide, in attracting FDI, next only to China, among the developing economies. Indian economy is clearly coupled with the world economy and hence it stands to gain a lot by attracting a huge quantum of foreign direct investments. Successive Governments in India have ensured that they keep their policies relevant in their times, thereby facilitating greater FDI and investments from Non-Resident (NRIs) including Overseas Corporate Bodies (OCBs).

REGULATORY FRAMEWORK OF FDI IN INDIA

After independence the government of India’s policy towars foreign capital has been characterized by cautious promotions strategy and restrictive nature and was geared towards import substitution measures and in 100 % export promotion measures, when majority was focused on technology transfer and not on investment.

Post the 1991 economic policies, India had been liberally allowing foreign investments in most of the sectors excepting a few critical ones where the level of foreign investments has been capped. Government has put in place several investor-friendly policies on FDI, under which FDI up to 100% is permitted under the automatic route in most sectors/activities such as NRIs/OCBs, telecom sector, all manufacturing activities, non-Banking financial companies with foreign equity, airports, courier services except the distribution of letters, drugs and pharmaceuticals, hotels, tourism and mass rapid tranport including associated commercial development of real estate, defence industry, environmental control and construction, oil

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exploration and petroleum, natural gas, printing sceintific and technical magazines, periodicals and Journals. Under this route, no permission from the Central Government is required for FDI inflow, but the same is subject to applicable laws/regulations, security and other conditions.

Recent policy initiatives by Government of India – *Make in India*, Skill India, and Digital India are focused mainly on improving the manufacturing capability of the country and also to improve the ease of doing business in India through simplification and rationalizing of existing rules and the introduction of information technology to make governance more efficient and effective.

Below are select sectors and the prevailing policies on FDI -

Sector	**FDI Policies**
Defense	FDI allowed up to 49% on approval route with certain conditions. Above 49%, the proposal will be routed to the Cabinet Committee on security on a case-to-case basis. Portfolio investments have been permitted in the Defence sector for up to 24% on automatic route.
Railways	FDI allowed 100% under the automatic route in construction, operation and maintenance of certain rail infrastructure projects like high speed trains, dedicated freight lines, etc.
Construction Equipment	FDI policy includes easing of area restriction norms, reduction of minimum capitalization and easy exit from project.
Pharma	FDI allowed up to 100% under the automatic route for manufacturing of medical devices.
Insurance	FDI limit raised from 26% to 49%
Telecom	100% FDI is allowed
Single-Brand Retail	100% FDI is allowed in single brand retail

TRENDS IN FDI

The New economic policy1991 have brought several measures to attract FDI and to make foreign investors confident in getting healthy and safe return. These have significantly liberalized FDI flows by creating a discretionary mechanism of approval through the Foreign Investment Promotion Board (FIPB) and an automatic approval mechanism, particularly for investment in Infrastructure, through the Reserve Bank of India. This policy of liberalization has marked a shift in the FDI regime during the 1990s era. FDI in India, Actual Inflow- During 2003-2015 is presented in Table-C.

Data as referred below, depicts clearly the traction, India has witnessed in attracting the foreign direct investments in the recent years. Specifically, FDI inflows to India have increased from FY 2003-04 until 2008-09. This period certainly depicts the phenomenal growth India witnessed in terms of economic growth and overall development. However, from the financial years 2009-10 and 2010-11 saw a gradual decline in the inflows, largely due to the after effects of global economic crisis. Year starting 2011-2012 saw gradual increase in FDI flows to India and it has maintained a steady flow until 2014-15.

Table C: FDI to India

Year	**Direct Investments to India**
2003-04	4322.0
2004-05	5987.0
2005-06	8901.0
2006-07	22,739.0
2007-08	34,729.0
2008-09	41,737.0
2009-10	33,107.0
2010-11	27,829.0
2011-12	32,957.0
2012-13	26,953.0

2013-14	30,762.0
2014-15	34,427.0

Source: *CMIE, Dept. of Industrial Policy & Promotion, Govt. of India*

Sector-wise FDI flow - Several sectors have benefited from the foreign direct investments in terms of scaling up their manufacturing capacity, technology capabilities and research & development expertise. The data given below in (Table-D) indicates that manufacturing industry benefited to a greater extent.

Table D: Sector-wise FDI flow (in US$ Million)

Year/Sector	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Total	15,723.6	2617.4	27311.5	25853.8	19425.9	40570.5	22996.2	24299.4
Automobile			1151.7	1176.6	1362.1	830.5	1537.3	1517.3
Chemicals (other than fertilisers)	205.6	-962.9	748.7	361.8	396.2	6952.0	-936.1	786.8
Computer software & hardware			1676.5	918.7	850.7	481.9	486	1126.3
Construction (infrastructure activities)			2028.1	2867.9	1118.7	2255.2	-9342.4	485.4
Construction development: Townships, housing, built-up infrastructure			2801.2	2844.1	1275.8	1480.5	10967.3	1226.1
Drugs & Pharma	214.9	54.1	181.6	212.9	212.9	7312.0	1123.5	1279.3
Hotel & tourism	194.8	335.6	449.8	748.3	320.7	999.9	3259.1	486.4
Metallurgical Industry	179.5	928.3	960.9	406.7	1104.6	1806.3	1466.2	567.6
Petroleum & Natural Gas			412.3	272.1	487.4	185.9	2042.7	112.2
Power		-626.6	985.3	1437.2	1272.4	1398.8	535.7	1066.1
Services sector	4749.1	5217.3	6116.2	4466.7	3366.8	5343.5	4883.9	2225.1
Telecommunications	519.9	-50.7	2558.4	2530.7	1658.7	1962.9	303.9	1307.0
Other sectors	9659.8	-2277.9	7240.7	7610.2	5999.8	9561.2	6696.3	12114.0

Source: CMIE, Dept. of Industrial Policy & Promotion

FDI inflows into equity by major investing countries - The data pertaining to the share of investments of major investing countries points out that there has been substantial decrease in investments by U.K, U.S.A, Japan, France and Germany and it was the smaller nations from Asia, Oceania and European Union has sharply increased in their investments into India, in recent years. The data given under (Table-E) identifies the FDI inflows into equity by major investing countries since 2006-07.

Table E: FDI inflows into equity by major investing countries (*Figures in % share in total*)

Year/Countries	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Cyprus	0.37	30.89	4.71	6.29	4.70	3.91	2.13	2.29
France	0.75	-5.14	1.71	1.17	3.78	1.63	2.81	1.26
Germany	0.76	-6.04	2.30	2.42	1.03	4.00	3.74	4.27

Japan	0.54	-3.15	1.48	4.58	8.04	17.34	9.73	7.07
Mauritius	40.46	286.10	41.04	40.21	35.97	24.51	41.30	20.00
Netherlands	4.10	2.56	3.23	3.48	6.25	3.47	8.07	9.34
Singapore	3.68	104.25	12.65	9.20	8.78	12.96	10.04	24.63
UAE	1.65	9.44	0.94	2.43	1.75	0.87	0.78	1.05
UK	11.94	19.31	3.16	2.54	3.89	22.82	7.19	13.23
USA	5.44	-52.00	6.60	7.52	6.02	2.75	2.42	3.32
Other countries	30.31	-286.22	22.17	20.15	19.80	5.74	11.80	13.54

Source: *CMIE, Dept. of Industrial Policy & Promotion*

CONCLUSION & SUGGESTIONS

Post the 1991 globalization reforms; India has realized the importance of foreign investments for its economic growth prosperity. In pursuance of the same, the successive Governments have been tweaking policies in favor of FDI. However, several effective steps need to be taken keeping in mind the slowing world economy and an ever increasing competition in attracting investments. In view of the same, the Government should consider easing various obsolete rules and regulations framed in the past, simplify various acts and facilitate the procedures for investors in a sustainable basis. This would be a win-win situation for both the Government and the investors and in doing so the country stands to benefit in various forms.

The tremendous opportunities which await the foreign investors, needs to be harnessed properly by the Government by proposing sector wise policies rather than one policy for all sectors. This would propel a wholesome growth across sectors and investors would be rushing to invest going forward. Initiatives like Make in India, Skill India, and Digital India are sure to thrill the investors and it is very vital that the Government keeps up the momentum and not loose stream in the mid-way. This would be critical for any foreign investment to happen in India. Stable Tax Regime is another area which the Government can work extensively to send a clear message to the investor community abroad on our efficiency in handling the tax related issues, keeping in mind the investor sentiments. This would certainly be a welcome move and would be much appreciated by the investor community globally. The Government needs to ensure that it reduces the gap between the approvals and actual, red-tap ism, price stability and the improvement in the social-economic fundamentals of the nation.

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