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PROSPECTS OF FOREIGN DIRECT INVESTMENT IN INDIA

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Abstract
Foreign direct investment plays an important role in the economic development of the country. It helps in transferring of financial resources, technology and innovative and improved management techniques along with raising productivity. An Indian company may receive Foreign Direct Investment either through automatic route or government route. The paper tries to study the need of FDI in India, to exhibit the sector-wise & year-wise analysis of FDI's in India, to rank the sectors based upon highest FDI inflows. The results show that Mauritius is the country that has invested highly in India followed by Singapore, Japan, and USA and so on. It also shows that there has been a tremendous increase in FDI inflow in India during the year 2000 to 2014. As per UN report, India is an investment hub after China and USA for major global companies. The present study is based on secondary data and period of the study is from 1991 to 2014. Total FDI inflows have been raised from US $ 133 Millions in 1991-92 to US $ 27841 Millions in the year 2008-09 and the share of direct foreign investment through approvals in equity etc. stood at 65.79% and that of portfolio investment was 34.21%. Projections show that total FDI inflows will be US $ 46098 Millions in 2015-16. Mauritius and Singapore tops in FDI inflows and the FDI inflows in service sector were in highest position. They have positive impact on the related economic indicators on Indian Economy. GOI should attract more FDI through favorable policies and avoid uncertainties.

INTRODUCTION
Foreign investments add a great deal to India's economy. The continuous inflow of foreign direct investment (FDI), which is now allowed across several industries, clearly shows the faith that overseas investors have in the country's economy.[1] FDI inflows to India increased 17 per cent in 2013 to reach 28 billion dollar, as per a United Nations (UN) report. The Indian government's policy regime and a robust business environment have ensured that foreign capital keep flowing into the country. The government has taken many initiatives in recent years such as relaxing FDI norms in 2013, in sectors such as defense, PSU oil refineries, telecom, power exchanges and stock exchanges, among others. The same year, big global brands such as Tesco, Singapore Airlines and Etihad lined up to invest in India as the government opened more sectors to foreign investment.[2]Automatic Route FDI is allowed under the automatic route without prior approval either of the Government or the Reserve Bank of India in all activities/sectors as specified in the consolidated FDI Policy, issued by the Government of India from time to time. Government Route FDI in activities not covered under the automatic route requires prior approval of the Government which is considered by the Foreign Investment Promotion Board (FIPB), Department of Economic Affairs, and Ministry of Finance. The Indian company having received FDI either under the Automatic route or the Government route is required to comply with provisions of the FDI policy including reporting the FDI to the Reserve.[3]

FDI POLICY IN INDIA
In the pre-liberalization period, India had followed an extremely cautious and selective approach while formulating FDI policy. 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 era. Before independence, major FDI came from the British companies. After Second World War, Japanese companies entered in the Indian Market. After independence, issues relating to foreign capital, MNCs, gained attention of policy makers.[4] The industrial policy of 1965, allowed MNCs to venture through technical collaboration in India. The govt. has provided many incentives such as tax concessions, simplified licensing etc to boost the FDI inflows. In fact, in the early nineties, Indian economy faced severe balance of payment crisis. India was left with that much amount of foreign exchange reserves which can finance its three weeks of imports. In this critical face of Indian economy, economic reforms were made in 1991 and India opened its doors of FDI inflows and adopted a more liberal foreign policy to restore the confidence of foreign investors (Sapana Honda 2011). A series of measures that were directed towards liberalizing foreign investment included the following:[5]

Introduction of dual route of approval of FDI
RBI's automatic route and Governments approval route through Foreign Investment Promotion Board (FIPB) and Secretariat for Industrial Assistance (SIA) Automatic permission for technology agreements in high priority industries and liberalization of technology imports Permission to NRIs and Overseas Corporate Bodies to invest up to 100% in high priorities sectors. Hike in the foreign equity holding limits to 51% and liberalization of the use of foreign brands name, signing of the convention of multilateral investment guarantee agency for protection of foreign investments. These efforts were boosted by the enactment of Foreign Exchange Management Act 1999 that replaced the Foreign Exchange Regulation Act. 1973.[6] This along with the sequential financial sector reforms paved way for greater capital account liberalization in India. GOI

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announced significant measures like 100% FDI in business to business (B2B), airports, e-commerce, power sector, oil refining. Manufacturing activities in all SEZs can have 100% Automatic route except for arms, explosives, allied defense equipments, narcotics etc. (P Subba Rao 2009). On 20th Sept. 2012, Government of India (GOI) has taken a final decision and opened 51% FDI in multi-brand retail sector. Foreign Retailers are permitted to set up malls only in cities with minimum population of 10 lakhs. There should be minimum investment of $ 100 million and 50% of the investment should be in backend.

Market size

Total FDI inflows into India in the period April 2000–August 2014 touched 341,357 million dollar. Total FDI inflows into India during the period April–August FY15 was USD 17,445 million dollars. The services sector (2,336 million dollar) attracted the highest FDI equity inflows in the period April–August 2014, followed by the services (1,086 million dollar) and drugs & pharmaceuticals (903 million) sectors. Mauritius led the share of top investing countries by FDI equity inflows into India with 3,934 million during April-August FY15, followed by Singapore (1,892 million dollar), the Netherlands (1,562 million dollar) and Japan (897 million dollar).[7]

OBJECTIVES OF STUDY

1. To understand the need for FDI in India.
2. To exhibit the sector-wise & year-wise analysis of FDI's in India.
3. To rank the sectors based upon highest FDI inflows.

RESEARCH METHODOLOGY

This research is a descriptive study in nature. The secondary data was collected from various journals, magazines, and websites particularly from the Department of Industrial Policy & Promotion, Ministry of Commerce and Industry etc. The study is based on the time period from 2000-2011. Graphs and tables have also been used where ever required to depict statistical data of FDI during the study period. Researcher used the Secondary data: Websites of Government Journals like journal relates with FDI. Books and magazines related to FDI inflows relate with different sectors. Books and magazines related to FDI inflows relate with different sectors. Reports and publications of various associations connected with business and industry, Agencies, government etc. Historical documents and other sources of published information. Foreign Direct Investment (FDI), in retail trade, is prohibited except in single brand product retail trading, in which FDI, up to 51% is permitted. Revised Position: The Government of India has reviewed the extant policy on FDI and decided that FDI, upto 100%, under the government approval route, would be permitted in Single-Brand Product Retail Trading.

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 (USD 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.[8] 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 275–300 million dollar. Lactalis has a yearly turnover of about US $21 billion. Tirumala had a turnover of Rs 1, 424 crore (226.71 million dollar) for FY 2012–13. The Hyderabad-based company, which was founded in 1998, makes dairy products such as sweets, flavored milk, curd, ice-cream, etc.[9]

Foreign Direct Investment in India increased to 3459 USD Million in December of 2014 from 1767 USD Million in November of 2014. Foreign Direct Investment in India averaged 1027.46 USD Million from 1995 until 2014, reaching an all time high of 5670 USD Million in February of 2008 and a record low of -60 USD Million in February of 2014. Foreign Direct Investment in India is reported by the Reserve Bank of India.

Table: India's Foreign Direct Investment

India Trade	Last	Previous	Highest	Lowest	Unit
Balance of Trade	-8320.00	-9430.00	258.90	-20210.90	USD Million
Exports	23880.00	25400.00	30541.44	59.01	USD Million
Imports	32210.00	34830.00	45281.90	117.40	USD Million
Current Account	-10103.10	-7836.93	7360.00	-31857.20	USD Million
Current Account to GDP	-1.70	-4.70	1.50	-4.70	Percent
External Debt	455929.00	450131.00	455929.00	96392.00	USD Million
Terms of Trade	60.20	61.90	100.00	60.20	Index Points
Foreign Direct Investment	3459.00	1767.00	5670.00	-60.00	USD Million
Remittances	11673.51	8812.42	11673.51	5999.10	USD Million
Tourist Arrivals	790000.00	877000.00	877000.00	129286.00	
Gold Reserves	557.75	557.75	557.75	357.75	Tones
Crude Oil Production	774.00	757.00	813.00	526.00	BBL/D/1K

Investments

US-based Nike has made a proposal to the Department of Industrial Policy and Promotion (DIPP) to set up fully-owned stores in India. Nike is one of the world's largest suppliers of athletic shoes and apparel globally, with a market capitalization of USD 68 billion. US-based Milacron Llc plans to invest USD 30 million in the next three years in its India operations Ferromatik Milacron India Pvt Ltd (FMI), as per president and CEO, Mr Thomas Goeke. FMI manufactures plastic moulding machines at its plants in Ahmedabad in Gujarat and Coimbatore in Tamil Nadu. Bengal looks set for one of its biggest foreign investments.[10] A large private equity firm which has exposure in social infrastructure and agriculture plans to invest over Rs 300 crore (USD 49.02 million) in the proposed Dankuni food park promoted by Keventer Group. The Foreign Investment Promotion Board (FIPB) has approved a proposal from InterGlobe Aviation, the company that runs IndiGo, to reclassify shareholding of promoter Rakesh Gangwal as Non-Resident Indian (NRI) from FDI at present. This move enables the airline to have access to fresh FDI. Norway's Telenor Group plans to invest an additional Rs 780 crore (USD 127.47 million) to increase its ownership in Indian subsidiary Uninor to 100 per cent; Telenor currently owns a 74 per cent stake in Uninor. Chinese telecom equipment maker ZTE Corporation plans to establish a Global Network Operating Centre (GNOC) in India. The centre will seek to manage the networks of multiple telecom carriers in Asia and Africa. Japan's Suzuki Motor Corporation (SMC), the parent company of Maruti Suzuki, will spend Rs 18,500 crore (USD 3.02 billion) to establish a new factory in Gujarat. SMC plans to establish a 100 per cent subsidiary, Suzuki Motor Gujarat (SMG), to manufacture cars on a strictly no-loss, no-profit basis for Maruti Suzuki. US-based Leapfrog Investment has bought a minority stake in Chennai-based financial services provider IFMR Capital Finance for USD 29 million. This marks Leapfrog's third investment in India, after having earlier backed insurance distribution firm Mahindra Insurance Brokers and Shriram CCL.[11]

Government Initiatives

India's cabinet has cleared a proposal which allows 100 per cent FDI in railway infrastructure, excluding operations. Though the move does not allow foreign firms to operate trains, it allows them to do other things such as create the network and supply trains for bullet trains etc. Based on the recommendations of the FIPB in its 207th meeting held on July 4, 2014, the government approved 14 proposals of FDI amounting to about Rs 1,528.38 crore (USD 249.78 million). Additionally, based on the recommendations of the FIPB in its meeting held on June 11, 2014, the government approved 19 proposals of FDI amounting to about Rs 2,326.72 crore (USD 380.25 million).[11] The Union Cabinet has cleared a bill to raise the foreign investment ceiling in private insurance companies from 26 per cent to 49 per cent, with the proviso that the management and control of the companies must be with Indians. The Reserve Bank of India (RBI) has allowed a number of foreign investors to invest, on repatriation basis, in non-convertible/ redeemable preference shares or debentures which are issued by Indian companies and are listed on established stock exchanges in the country. In an effort to bring in more investments into debt and equity markets, the RBI has established a framework for investments which allows foreign portfolio investors (FPIs) to take part in open offers, buyback of securities and disinvestment of shares by the Central or state governments.[12]

CONCLUSION

It can be observed from the above analysis that at the sectoral level of the Indian economy, FDI has helped to raise the output, productivity and employment in some sectors especially in service sector. Indian service sector is generating the proper employment options for skilled worker with high perks. On the other side banking and insurance sector help in providing the strength to the Indian economic condition and develop the foreign exchange system in country. So, we can conclude that FDI is always helps to create employment in the country and also support the small scale industries also and helps country to put an impression on the world wide level through liberalization and globalization Foreign investment inflows are expected to increase by more than two times and cross the USD 60 billion mark in FY15 as foreign investors start gaining confidence in India's new government, as per an industry study. "Riding on huge expectations from the present Modi government, global investors are gung ho on the Indian economy which is expected to witness over 100 per cent increase in foreign investment inflows both FDI and FIIs to above USD 60 billion in the current financial year, as against USD 29 billion during 2013-14," according to the study. India will require around USD 1 trillion in the 12th Five-Year Plan (2012–17), to fund infrastructure growth covering sectors such as highways, ports and airways. This requires support in terms of FDI. The year 2013 saw foreign investment pour into sectors such as automobiles, computer software and hardware, construction development, power, services, and telecommunications, among others.

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