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TREND OF FOREIGN DIRECT INVESTMENT INFLOWS IN INDIA

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Foreign Direct Investment is an important component of every nation's efforts toward economic development and also is an integral part of the globalization of the world economy (Festervand, 1999)[1]. All nations eagerly try to attract FDI. The success of any nation in attracting foreign investment is directly proportional to that nation's resources and the existence of lucrative investment opportunities.

Foreign Direct Investment (FDI) is an investment made by the resident of a country in the financial assets and production process of another country. It is considered to be the lifeblood of economic development especially for the developing and underdeveloped countries. It plays an important role in the long-term development of a country not only as a source of capital but also for enhancing competitiveness of the domestic economy through transfer of technology and innovative ideas, strengthening infrastructure, raising productivity and generating new employment opportunities, improving country's trade balances, increasing labor standards and skills and the general business climate. In India, FDI is considered as a developmental tool, which can help in achieving self-reliance in all the sectors of the economy. For this purpose in 1948, the Jawaharlal Nehru Government launched a policy to satisfy the foreign investors and gave them assurance that there would be no discrimination between foreign and Indian capital. The Asian countries have been largely opening up their economies for Foreign Investors to invest in since 1990s.

FDI Policy Framework in India

There has been a sea change in India's approach to foreign investment from the early 1990s when it began structural economic reforms encompassing almost all the sectors of the economy.

Pre-Liberalisation Period

Historically, India had followed an extremely cautious and selective approach while formulating FDI policy in view of the dominance of "import-substitution strategy" of industrialisation. With the objective of becoming "self reliant", there was a dual nature of policy intention – FDI through foreign collaboration was welcomed in the areas of high technology and high priorities to build national capability and discouraged in low technology areas to protect and nurture domestic industries. The regulatory framework was consolidated through the enactment of Foreign Exchange Regulation Act (FERA), 1973 wherein foreign equity holding in a joint venture was allowed only up to 40 per cent. Subsequently, various exemptions were extended to foreign companies engaged in export oriented businesses and high technology and high priority areas including allowing equity holdings of over 40 per cent. Moreover, drawing from successes of other country experiences in Asia, Government not only established special economic zones (SEZs) but also designed liberal policy and provided incentives for promoting FDI in these zones with a view to promote exports. As India continued to be highly protective, these measures did not add substantially to export competitiveness. Recognising these limitations, partial liberalisation in the trade and investment policy was introduced in the 1980s with the objective of enhancing export competitiveness, modernisation and marketing of exports through Transnational Corporations (TNCs). The announcements of Industrial Policy (1980 and 1982) and Technology Policy (1983) provided for a liberal attitude towards foreign investments in terms of changes in policy directions. The policy was characterised by de-licensing of some of the industrial rules and promotion of Indian manufacturing exports as well as emphasising on modernisation of industries through liberalised imports of capital goods and technology. This was supported by trade liberalisation measures in the form of tariff reduction and shifting of large number of items from import licensing to Open General Licensing (OGL).

Post-Liberalisation Period

A major shift occurred when India embarked upon economic liberalisation and reforms program in 1991 aiming to raise its growth potential and integrating with the world economy. Industrial policy reforms gradually removed restrictions on investment projects and business expansion on the one hand and allowed increased access to foreign technology and funding on the other. A series of measures that were directed towards liberalizing foreign investment included: (i) introduction of dual route of approval of FDI – RBI"s automatic route and Government"s approval (SIA/FIPB) route, (ii) automatic permission for technology agreements in high priority industries and removal of restriction of FDI in low technology areas as well as liberalisation of technology imports, (iii) permission to Non-resident Indians (NRIs) and Overseas Corporate Bodies (OCBs)

[1] *Festervand (1999). "Foreign Direct Investment: U. S. Executives Perceptions of Competing Asian Nations as FDI Destinations". Business Forum, Los Angeles, Volume Three, Number Four, summer 1999, 24-30.*

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to invest up to 100 per cent in high priorities sectors, (iv) hike in the foreign equity participation limits to 51 per cent for existing companies and liberalisation of the use of foreign „brands name" and (v) signing the Convention of Multilateral Investment Guarantee Agency (MIGA) for protection of foreign investments. These efforts were boosted by the enactment of Foreign Exchange Management Act (FEMA), 1999 [that replaced the Foreign Exchange Regulation Act (FERA), 1973] which was less stringent. This along with the sequential financial sector reforms paved way for greater capital account liberalisation in India. Investment proposals falling under the automatic route and matters related to FEMA are dealt with by RBI, while the Government handles investment through approval route and issues that relate to FDI policy per se through its three institutions, viz., the Foreign Investment Promotion Board (FIPB), the Secretariat for Industrial Assistance (SIA) and the Foreign Investment Implementation Authority (FIIA). FDI under the automatic route does not require any prior approval either by the Government or the Reserve Bank. The investors are only required to notify the concerned regional office of the RBI within 30 days of receipt of inward remittances and file the required documents with that office within 30 days of issuance of shares to foreign investors. Under the approval route, the proposals are considered in a time-bound and transparent manner by the FIPB. Approvals of composite proposals involving foreign investment/ foreign technical collaboration are also granted on the recommendations of the FIPB.

- Government eases FDI norms in 15 major sectors.
- Townships, shopping complexes & business centres – all allow up to 100% FDI under the auto route. Conditions on minimum capitalisation & floor area restrictions have now been removed for the construction development sector.
- India's defence sector now allows consolidated FDI up to 49% under the automatic route. FDI beyond 49% will now be considered by the Foreign Investment Promotion Board. Govt approval route will be required only when FDI results in a change of ownership pattern.
- Private sector banks now allow consolidated FDI up to 74%.
- Up to 100% FDI is now allowed in coffee/rubber/cardamom/palm oil & olive oil plantations via the automatic route.
- 100% FDI is now allowed via the auto route in duty free shops located and operated in the customs bonded areas.
- Manufacturers can now sell their products through wholesale and/or retail, including through e-commerce without Government Approval.
- Foreign Equity caps have now been increased for establishment & operation of satellites, credit information companies, non-scheduled air transport & ground handling services from 74% to 100%.
- 100% FDI allowed in medical devices.
- FDI cap increased in insurance & sub-activities from 26% to 49%.
- FDI up to 49% has been permitted in the Pension Sector.
- Construction, operation and maintenance of specified activities of Railway sector opened to 100% foreign direct investment under automatic route.
- FDI policy on Construction Development sector has been liberalised by relaxing the norms pertaining to minimum area, minimum capitalisation and repatriation of funds or exit from the project. To encourage investment in affordable housing, projects committing 30 percent of the total project cost for low cost affordable housing have been exempted from minimum area and capitalisation norms.
- Investment by NRIs under Schedule 4 of FEMA (Transfer or Issue of Security by Persons Resident Outside India) Regulations will be deemed to be domestic investment at par with the investment made by residents.
- Composite caps on foreign investments introduced to bring uniformity and simplicity is brought across the sectors in FDI policy.
- 100% FDI allowed in White Label ATM Operations.

Statement of the Problem

The world is increasingly becoming more interdependent. Goods and services followed by the financial transactions are moving across the borders. In fact, the world has become a borderless world. In the era of globalization, where increased competition and rapid technology change are very frequent, the role of FDI is very complementary, catalytic and valuable to the nations and thus helps in boosting economic development. FDI is now recognized as an important engine of economic development.

The goal of international investment in a country like India was to expand the availability of capital in the form of equity and debt. Theoretically, it was argued that the primary motive of international investors was to diversify their risk and to seek better returns on their investments at the available opportunity that prevails in a developing nation rather than in a developed nation. The purpose behind this particular argument is that in a developed country the opportunities that arise from interest rate differentials and arbitrage choices have been made as an inefficient and irregular financial market.

These facts, assumptions and outcomes raised the following questions in the minds of the researcher.

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- What are the emerging trends and patterns of the FDI inflows in India?

Objectives
The following are the objectives of the study:
- To analyze the trends and patterns of FDI inflow in India.
- To assess the impact of FDI in various sectors.

Data and Source of Data
This study is mainly based on secondary data.

Period of Study
This study covers a period of 24 years from 1991-92 to 2014-15, country wise and sector wise analysis for 5 years 2010-2011 to 2014-2015.

This 24 year period is chosen in order to have a fairly long, cyclically well-balanced period, for which reasonably homogeneous, reliable and up-to-date financial data would be available. The financial year starts from 1st April and extends up to 31st March.

FDI Inflows in India (Rs. in Crores)

Table 1: Show that FDI Inflows in India for 24 Years (1991-1992 to 2014-2015)

Years	Inflows(Rs. in Crores)
1991-1992	409
1992-1993	1094
1993-1994	2018
1994-1995	4312
1995-1996	6916
1996-1997	9654
1997-1998	13548
1998-1999	12343
1999-2000	10311
2000-2001	10733
2001-2002	18654
2002-2003	12871
2003-2004	10064
2004-2005	14653
2005-2006	24584
2006-2007	56390
2007-2008	98642
2008-2009	142829
2009-2010	123120
2010-2011	97320
2011-2012	165146
2012-2013	121907
2013-2014	147518
2014-2015	189,107
MEAN	53922.6
S.D	62544.0
CAGR	**29.13**

Compound Annual Growth Rate: **29.13%.** Over the course of 24 years periods your investment grew from 409 crores to1,89,107.

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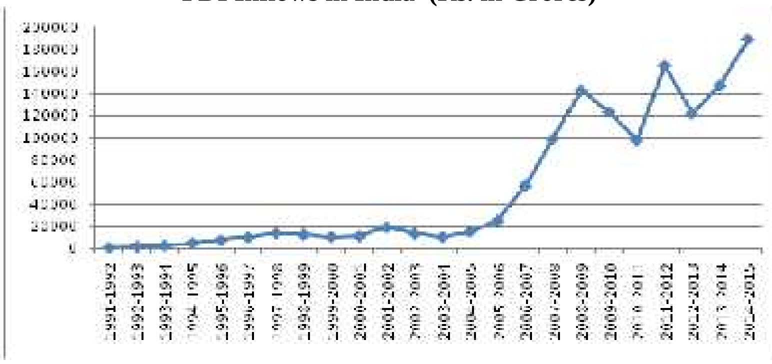
FDI Inflows in India (Rs. in Crores)

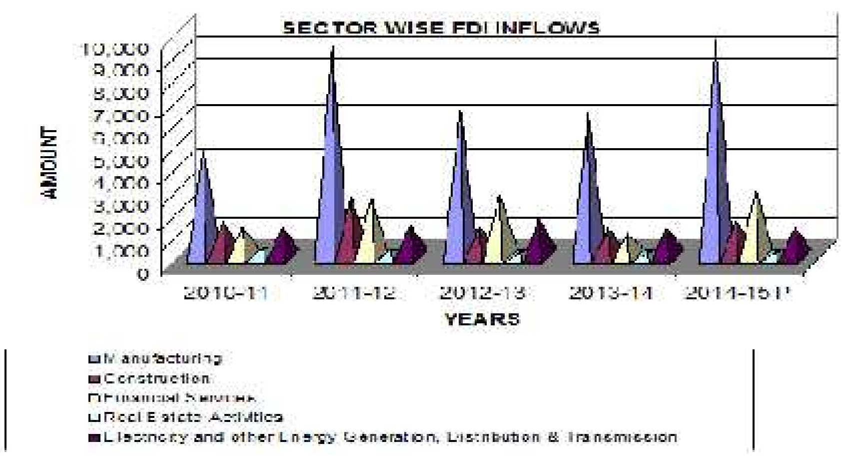


Country-Wise FDI Inflows

Source: RBI Bulletin

FDI inflows by top five countries invested in India for five years from the year 2010-2011 to 2014-2015. Mauritius was on the top in all the 5 years of the period. **(FDI from Mauritius to India is the highest in comparison with all the other countries that invest in India. FDI from Mauritius to India is the highest due to the special treatment of tax given in India to the investments that come through Mauritius[2]. The tiny nation in the Indian Ocean, which levies effective corporate tax of less than three per cent, is considered the best place for avoiding taxes. Though India has a Double Taxation Avoidance Agreement with about 65 countries like the US, UK, Japan, France, and Germany, it is Mauritius which is the most preferred route for FDI inflows[3]).**

Sector- Wise FDI Inflows



[2] http://business.mapsofindia.com/fdi-india/investing-country/mauritius.html

[3] The Financial Express, India gets 43% FDI through Mauritius route, Monday, Apr 20, 2009.

Sector-Wise Inflows of FDI in India for 5 years from the year 2010-20111 to 2014-2015. Manufacturing was on the top in all 5 years of the above period. **(FDI Inflow in India reveals that maximum FDI has taken place in the Manufacturing sector).**

Suggestions

- Government should take necessary steps to further liberalizing the FDI norms and helps to bring more FDI into India.
- India needs to encourage more FDI inflows through NRI population.
- Government of India should use information technology and modern marketing techniques to attract FDI.

Conclusion

Foreign Direct Investment inflows indicate a positive trend in the future. Total amount of the FDI flows into India through the different approval routes in equity form the SIA or the FIPB topped the list followed by the acquisition of shares route, the RBI automatic route and the NRI route. The Country wise Analysis of FDI Inflow in India reveals that maximum FDI has taken place in Mauritius. The Mauritius is followed by the Singapore in terms of FDI. The Sector wise Analysis of FDI Inflow in India reveals that maximum FDI has taken place in the Manufacturing sector. Thus the sector wise inflows of FDI in India shows a varying trend but acts as a catalyst for growth, quality maintenance and development of Indian Industries to a greater and larger extent. The technology transfer is also seen as one of the major changes apart from increase in operational efficiency, managerial efficiency, employment opportunities and infrastructure development.