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"DIFFERENT SOURCES OF FDI FLOWS IN INDIA-A STUDY"

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ABSTRACT

Foreign direct investment (FDI) in India is the major monetary source for economic development in India. Foreign companies invest directly in fast growing private Indian businesses to take benefits of cheaper wages and changing business environment of India. Economic liberalisation started in India in wake of the 1991 economic crisis and since then FDI has steadily increased in India. It were Manmohan Singh and P. V. Narasimha Rao who brought FDI in India, which subsequently generated more than one crore jobs. According to the Financial Times, in 2015 India overtook China and the US as the top destination for the Foreign Direct Investment. In first half of the 2015, India attracted investment of $31 billion compared to $28 billion and $27 billion of China and the US respectively.This paper highlights the different sources & flows of FDI.

I. INTRODUCTION

Foreign Direct Investment (FDI) plays a very important role in the development of the nation. It is very much vital in the case of underdeveloped and developing countries. A typical characteristic of these developing and underdeveloped economies is the fact that these economies do not have the needed level of savings and income in order to meet the required level of investment needed to sustain the growth of the economy. In such cases, foreign direct investment plays an important role of bridging the gap between the available resources or funds and the required resources or funds. 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, strengthening infrastructure, raising productivity and generating new employment opportunities. In India, FDI is considered as a developmental tool, which helps in achieving self-reliance in various sectors and in overall development of the economy. India after liberalizing and globalizing the economy to the outside world in 1991, there was a massive increase in the flow of foreign direct investment. This paper analyses FDI inflow into the country during the Post Liberalization period. Further, the trends of FDI inflow into the country are projected for a period from 2000-16 the paper tries to examine the various set of factors which influence the flow of FDI Identifying the causes for low inflow and suggestive remedial measures to increase the flow of FDI in India with that of other developing nations in the world.

There are two routes by which India gets FDI

- Automatic route: By this route FDI is allowed without prior approval by Government or Reserve Bank of India.
- FDI reforms to push India-US trade: USIBC

Government route: Prior approval by government is needed via this route. Foreign Investment Promotion Board

wIll be abolished in 2018 which was the responsible agency to oversee this route.

Government initiatives

The Government of India has amended FDI policy to increase FDI inflow. In 2014, the government increased foreign investment upper limit from 26% to 49% in insurance sector. It also launched Make in India initiative in September 2014 under which FDI policy for 25 sectors was liberalised further.As of April 2015, FDI inflow in India increased by 48% since the launch of "Make in India" initiative.

India was ranking 15th in the world in 2013 in terms of FDI inflow, it rose up to 9th position in 2014, while in 2015 India became top destination for foreign direct investment.

II. SECTORS

During 2014–15, India received most of its FDI from Mauritius, Singapore, Netherlands, Japan and the US. On 25 September 2014, Government of India launched Make in India initiative in which policy statement on 25 sectors were released with relaxed norms on each sector. Following are some of major sectors for Foreign Direct Investment.

III. INFRASTRUCTURE

10% of India's GDP is based on construction activity. Indian government has plans to invest $1 trillion on infrastructure from 2012–2017. 40% of this $1 trillion is to be funded by private sector. 100% FDI under automatic route is permitted in construction sector for cities and townships.

IV. AUTOMOTIVE

FDI in automotive sector was increased by 89% between April 2014 to February 2015.[17] India is 7th largest producer of vehicles in the world with 17.5 million vehicles annually. 100% FDI is permitted in this sector via automatic route. Automobiles shares 7% of the India's GDP.

V. PHARMACEUTICALS

Indian pharmaceutical market is 3rd largest in terms of volume and 13th largest in terms of value. Indian pharma industry is expected to grow at 20% compound annual growth rate from 2015 to 2020. 100% FDI is permitted in this sector.

VI. SERVICE

FDI in service sector was increased by 46% in 2014–15. Service sector includes banking, insurance, outsourcing, research & development, courier and technology testing. FDI limit in insurance sector was raised from 26% to 49% in 2014.

VII. RAILWAYS

100% FDI is allowed under automatic route in most of areas of railway, other than the operations, like High speed train, railway electrification, passenger terminal, mass rapid transport systems etc.[25][26] Mumbai-Ahemdabad

high speed corridor project is single largest railway project in India, other being CSTM-Panvel suburban corridor. Foreign investment more than 90,000 crore (US$14 billion) is expected in these projects.

VIII. CHEMICALS

Chemical industry of India earned revenue of $155–160 billion in 2013. 100% FDI is allowed in Chemical sector under automatic route. Except Hydrocynic acid, Phosgene, Isocynates and their derivatives, production of all other chemicals is de-licensed in India. India's share in global specialty chemical industry is expected to rise from 2.8% in 2013 to 6–7% in 2023.

IX. TEXTILE

Textile is one major contributor to India's export. Nearly 11% of India's total export is textile. This sector has attracted about $1647 million from April 2000 to May 2015. 100% FDI is allowed under automatic route. During year 2013–14, FDI in textile sector was increased by 91%. Indian textile industry is expected reach up to $141 billion till 2021.

X. AIRLINES

Foreigner investment in a scheduled or regional air transport service or domestic scheduled passenger airline is permitted to 100,with FDI up to 49% permitted under automatic route and beyond 49% through government approval.For airport modernization, 100% FDI will be allowed for existing airport under automatic route.

Reported FDI Inflows to India and their Main Components
(As per International Best Practices)

(US $ mn)

Financial Year (April-March)	Main Components					Share of new items in the total [(3)+(4)+(5)]/(6)x100
	Equity Inflows (FIPB/SIA, Automatic & Acquisition Routes)#	Equity capital of unincor-porated bodies ##	Re-invested earnings +	Other capital +	Total FDI Inflows	
(1)	(2)	(3)	(4)	(5)	(6)	(7)
2000-01	2,339	61	1,350	279	4,029	41.95
2001-02	3,904	191	1,645	390	6,130	36.31
2002-03	2,574	190	1,833	438	5,035	48.88
2003-04	2,197	32	1,460	633	4,322	49.17
2004-05	3,250	528	1,904	369	6,051	46.29
2005-06	5,540	435	2,760	226	8,961	38.18
2006-07	15,585	896	5,828	517	22,826	31.72
2007-08	24,573	2,291	7,679	292	34,835	29.46
2008-09	27,329	702	9,030	777	37,838	27.77
2009-10(P) (+) (++)	25,609	1,540	8,669	1,945	37,763	32.18
2010-11(P) (+)	19,430	657	6,703	234	27,024	28.10
Memorandum Items						
1991-92@- 1999-00	15,483	-	-	-	15,483	
2000-01 to 2004-05	14,264	1,002	8,192	2,109	25,567	44.21
2005-06 to 2009-10	98,636	5,864	33,966	3,737	1,42,223	30.63
2000-01 to 2009-10	1,12,900	6,866	42,158	5,846	1,67,790	32.70

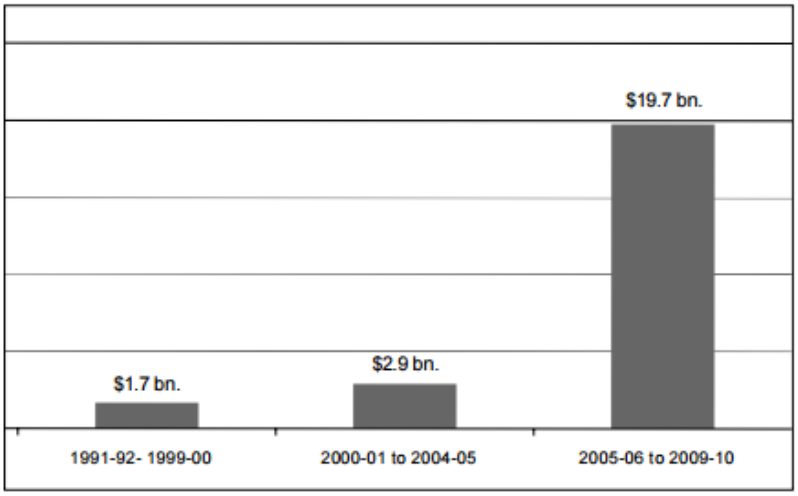
Source: Based on DIPP, "Fact Sheet on Foreign Direct Investment (FDI)", March 2011.
@ August 1991 to March 1992.
"+" (P) All figures are provisional and data in respect of 'Re-invested earnings' & 'Other capital' for the years 2009-2010 & 2010-11 are estimated as averages of previous two years.
++ Data on equity capital of unincorporated bodies, reinvested earnings and other capital pertains to the period from April 2009 to December 2009.
# Hereafter referred to as FDI Equity Inflows.
Figures for equity capital of unincorporated bodies for 2009-10 are estimates.

Source:- https://www.ris.org.in/sites/default/files/pdf/FDI_Book-Final.pdf

The increase in inflows since 2005 resulted from a number of policy initiatives taken by the government to attract FDI. In March 2005, the government announced a revised FDI policy, an important element of which was the decision to allow FDI up to 100 per cent foreign equity under the automatic route in townships, housing, built-up infrastructure and construction-development projects. The year 2005 also witnessed the enactment of the Special Economic Zones Act, which opened further avenues for the involvement of foreign firms in the Indian economy.

Further, it can be seen from Table above that acquisition of shares of domestic enterprises by foreign investors contributed substantially to the FDI equity inflows and it peaked in 2005-06 and 2006-07 to reach almost two-fifths of the total FDI Equity flows. Acquisition of shares (which do not add to the existing facilities in the near term) together with reinvested earnings (which do not represent actual inflows) account for a substantial proportion of the reported total inflows: in some years even forming more than half of the total. (Chart) Another notable feature of the inflows is that the proportion of the inflows subject to specific government approvals declined from 62.25 per cent in 2000-01 to just 10 per cent in 2010-11 reflecting the extent of opening up and progressively greater freedom enjoyed by the foreign investors in making their investment decisions.

Chart 1: Annual Average Reported FDI Equity Inflows during Different Periods



Source:- https://www.ris.org.in/sites/default/files/pdf/FDI_Book-Final.pdf

XI. CONCLUSION

FDI inflows has caused concern in policy making circles and has become a subject matter of public comments. RBI in particular is now worried about the fall in FDI inflows in the context of higher level of current account deficit and dominance of volatile portfolio capital flows. The volatile FII inflows which accounted for a substantial proportion of the equity flows have in turn contributed to the volatility in equity prices and the exchange rate. RBI underlined the 'sustainability risks' posed by the composition of capital flows and the need for recovery in FDI which is expected to have longer term commitments. Besides environmentally sensitive sectors like mining, integrated township projects and construction of ports, it identified the sectors responsible for the slow down as "construction, real estate, business and financial services". It does appear that the role of FDI is now being seen more from the point of managing the current account deficit due to its more 'stable' nature, rather than for it being a 'bundle of assets'.

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