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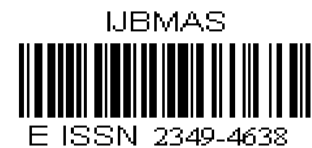

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RECENT TRENDS IN FOREIGN DIRECT INVESTMENT (FDI) IN INDIA

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ABSTRACT

Apart from being a critical driver of economic growth, foreign direct investment (FDI) is a major source of non-debt financial resource for the economic development of India. Foreign companies invest in India to take advantage of relatively lower wages, special investment privileges such as tax exemptions. The decade gone by would be considered as the golden year for foreign direct investment (FDI) in India. Between year 2000-11, India attracted cumulative FDI inflow of USD 237 Billion. 70 per cent of this FDI constituted equity inflows, the rest being reinvested earnings and other capital. Over the last decade, FDI in India grew at CAGR 23 per cent. Recently, Government of India allowed FDI in different sectors of Indian economy. Since the adoption of New Industrial Policy (NIP) and on-going reform process, (FDI) inflows have increased substantially. On this background, the paper analyses the sector wise and country wise inflows of FDI during the period 2009-2014. This paper begins by reviewing possible sources of FDI and then provides a comprehensive evaluation of the empirical evidence on sector wise FDI. This study is entirely based on secondary data. It also point out the sector-wise distribution of FDI inflow to know about which has concerned with the chief share. The present study is based on secondary data collected from different sources. The paper concludes that the Government should design the FDI policy in such a way where FDI inflows can be utilized as means of enhancing domestic production, savings and exports through the equitable distribution among states so that they can attract FDI inflows at their own level. As per the study, the sectors that attracted higher inflows were Communication services as per the CAGR and as per the share it is manufacture sector.

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Introduction

"FDI is defined as an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate)…A foreign affiliate is an incorporated or unincorporated

enterprise in which an investor, who is a resident in another economy, owns a stake that permits a lasting interest in the management of that enterprise (an equity stake of 10% for an incorporated enterprise, or its equivalent for an unincorporated enterprise)."[1]

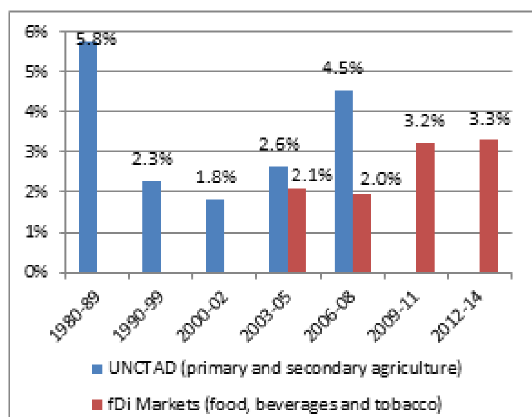
Broadly speaking, FDI is composed of three distinct modes of financing, namely, equity capital (which refers to purchase of an enterprise's share by a foreign investor in a foreign country), reinvested earnings/profits in the host country (share of earnings of a foreign direct investor which is neither given out as dividends by foreign affiliates nor remitted to the home country), and intra-company debt transactions (short or long-term borrowing and lending of finances between foreign direct investor and affiliate enterprises). Even though there have been attempts to reflect these three aspects of FDI in national and global databases, several concerns are yet to be addressed.

Apart from being a critical driver of economic growth, foreign direct investment (FDI) is a major source of non-debt financial resource for the economic development of India. Foreign companies invest in India to take advantage of relatively lower wages, special investment privileges such as tax exemptions, etc. For a country where foreign investments are being made, it also means achieving technical know-how and generating employment. The Indian government's favorable policy regime and robust business environment have ensured that foreign capital keeps flowing into the country. The government has taken many initiatives in recent years such as relaxing FDI norms across sectors such as defense, PSU oil refineries, telecom, power exchanges, and stock exchanges, among others.

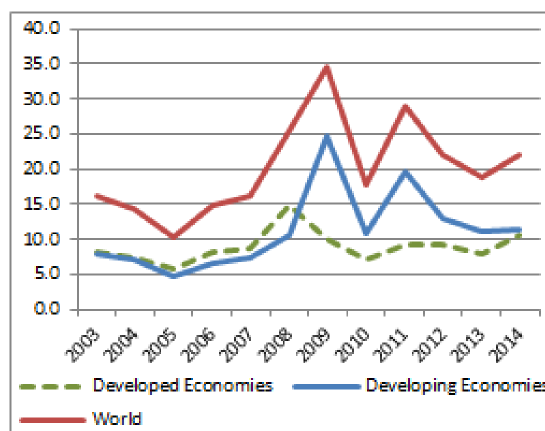
Trends in FDI in food, beverages and tobacco: inflows

Globally, the share of foreign direct investment in food, beverages and tobacco (FBT-FDI), including primary agriculture, in total FDI flows increased in the late 2000s after decades of decline, amid rising food prices, both in relative and absolute terms. However, even in 2012-14, this share was still relatively low (3.3%). Global FBT-FDI flows peaked in 2009, at 34.9 billion USD – a level never attained again since then.

Although the global flows of FBT-FDI were lower in 2014 than in the direct aftermath of the food price crises of 2007-08 and 2011-12, they are still higher than before 2008. For example, global FBT-FDI flows in 2013 (19 billion USD) and 2014 (21.9 billion USD) were significantly higher than in 2003 (16.1 billion USD) and 2004 (14.2 billion USD). These figures have to be interpreted with caution however as figures are expressed in current USD.



Source: UNCTAD (2012), fDi Markets (2015).



Source: fDi Markets, April 2015.

Global FDI inflows: share of agriculture / food, beverages and tobacco, according to UNCTAD and FDI Markets, 1980-2014 (in %)

Global FDI inflows: food, beverages and tobacco, 2003-2014 (billion USD)

The study has explored vast gamut of issues and problem areas of Economic Liberalization and Foreign Investment Trends in India. It is observed the policy of liberalization creates Investor friendly environment. In the present paper, the study proceeds to identify the objectives. It leads to the identification of issues and

[1] Retrieved from UNCTAD's 'World Investment Report 2007: Transnational corporations, extractive industries and development'.

relevant problems. The research work is planned for analysis of the problems and literature review. It concludes with findings and suggestions.

Literature Review

Cherian, Iyare Sunday O, Bhaumik Pradip K, Banik Arindam (2004) in their work "Explaining FDI Inflows to India, China and the Caribbean: An Extended Neighborhood Approach" found out that the FDI flows are generally believed to be influenced by economic indicators like market size, export intensity, institutions, etc, irrespective of the source and destination countries. John Andreas (2004) in his work "The Effects of FDI Inflows on Host Country Economic Growth" discussed the potential of FDI inflows to affect the economic growth of the host country. Singh S., Singh M. (2011), "Trends and prospects of FDI in India" in his study investigated the trend of FDI inflow to India during 1970–2007 using time series data. This paper aims to study the reasons behind the fluctuations of the FDI in flow in India and to search the cause that is responsible for the fluctuations of the trends of FDI. Agarwal G., Khan M. A. (2011), "Impact of FDI on GDP: A Comparative Study of China and India" observed that 1% increase in FDI would result in 0.07% increase in GDP of China and 0.02% increase in GDP of India. Saini A., Law S. H., Ahmad A. H. (2010), "FDI and economic growth: New evidence on the role of financial markets" observed that the positive impact of FDI on growth "kicks in" only after financial market development exceeds a threshold level. Until then, the benefit of FDI is non-existent. Chee Y. L., Nair M. (2010), "The Impact of FDI and Financial Sector Development on Economic Growth: Empirical Evidence from Asia and Oceania" observed that financial sector development enhances the contribution of FDI on economic growth in the region.

The study identifies following objectives:

1. Growth of trade: In this context, stable prices and strong currency is the target of the study.
2. Matching fund flows: In this context, flows of funds on current and capital accounts would have to be balanced. Study focuses on foreign investments and export earnings.
3. Impact of economic liberalization and foreign investments on National Net Present Value: In this context, the Study pursues the objective of optimum cost and maximum income of foreign investments in India to determine impact on National Net Present Value

Research Methodology: It the research route to be followed, the instruments to be used, universe and sample of the study for the data to be collected, the tools of analysis used and pattern of deducing conclusions. This research is conceptual & descriptive in nature therefore the research study uses secondary data which has been collected out of the reviews of past research papers, national journals and other reports. The present study was carried out keeping the objectives in mind to explore the relationship between the inflows of FDI and its impact on Indian Economy.

TRENDS IN INDIA'S FDI: ORIGIN AND EVOLUTION

The origin of India's FDI can be traced back to the early 1960s. During that time, Sri Lanka and some African countries had emerged as attractive investment destinations for a selected number of Indian business conglomerates like Tata, Birla and Kirloskar, which sought to expand their production bases by investing in cross-border activities.

Even though a few Indian enterprises had begun to assume a global foothold through direct overseas investments since the 1960s, FDI became a prominent feature of Indian businesses only in the aftermath of economic reforms of 1991. For instance, according to FDI estimates provided by UNCTAD, India's FDI flows dramatically increased from USD 44 million during 1980-89 to USD 700 million during 1990-99, and went up to USD 79.3 billion during 2000-09. India's FDI stock took a major leap from USD 78 million in 1980 to USD 1.7 billion in 2000, and stood at USD 96.9 billion in 2010.

The phenomenal upsurge in India's FDI flows in the 1990s and consecutive decades can, to a considerable degree, be attributed to a dramatic shift in India's domestic and foreign policy environment. Although it will elaborately discuss the erstwhile and current policy framework of the country, it is important to note that prior to the 1990s, India's restrictive macroeconomic, trade and industrial policies were predominantly responsible for the inward-orientated nature of Indian businesses which often led them to seek protection from incoming FDI and imports. In the 1990s, however, significant reforms in trade policy like the abolition of import licensing system, gradual removal of non-tariff barriers (NTBs), major reductions in tariff

rates, etc. led to an increased inflow of cheaper imports, which compelled Indian firms to become more competitive in the global market. With respect to its inward FDI policy, India implemented important reforms such as introducing automatic approval channel for FDI proposals and steadily widening its scope to a range of new industries, liberalizing new sectors to foreign investments, withdrawing stringent performance requirements for foreign firms functioning in India, etc. which provided favourable conditions for greater inflow of FDI and expansion of operations for existing foreign businesses (Pradhan 2005). All such measures to progressively liberalize the economy drove Indian firms to expand globally by using FDI either to acquire foreign technology/brand name (also called brownfield investments) or create new infrastructure for supporting overseas trade activities (greenfield investments). Not only did the economic reforms of 1991 lead to an exponential increase in the magnitude of Indian FDI, but they also altered the geographical focus and sectoral composition of these flows. Since there is an evident contrast in the nature of FDI between the pre-liberalization and postliberalization phases, the period from 1975 to 1990 is often called the 'First Wave' and that from 1991 the 'Second Wave' of internationalization of Indian firms.

Recent trends of Indian FDI in Africa

Indian investments in Africa have tremendously improved after the domestic economic reforms in 1991. Liberalized government policies, strong domestic economic growth, increased competencies of Indian firms and a strong presence of the Indian diaspora network in Africa facilitated crossborder acquisitions and greenfield investments by Indian companies in several African countries. Indian investments in Africa are believed to be driven by the market and resource-seeking motives (Paul 2014). Indian FDI in Africa is concentrated in the hands of few large firms – out of the 597 Indian companies that have invested in Africa over the period between 2008 and 2014, 69 per cent of total investment flows are captured by the top 11 Indian companies. However, it is important to note that a large amount of investments made in Mauritius are routed back to India. The Double Taxation Avoidance Agreement (DTAA) signed between India and Mauritius in 1983 provides relief on dual taxation. However, DTAA has been used by investors to route their investments through so-called 'tax-haven' countries, facilitating round-tripping of investments, making it possible for investors to sidestep taxes altogether

CONCLUSION

The general trends suggest that Indian enterprises have increasingly tried to expand their presence in markets of developed economies through mergers and acquisitions while greenfield investments have become a more preferred mode of entry in developing countries. The case study of Africa discussed in the report hinges upon the investment experience of Indian companies in various sectors. The bulk of these investments have largely been concentrated in energy sector but recent trends suggest that Africa holds tremendous potential in IT, pharmaceuticals, and telecom as well. The developmental impact of such investments to Africa, in particular, and other destinations in general, is difficult to assess owing to the cross-cutting nature of various socio-economic, political, and regulatory parameters.

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