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Foreign Direct Investment in India

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Abstract:

This paper focuses the significance of pre and past period of liberalization in India. It cover the various measures like US$ current prices and exchange rates in millions, exchange rates per capita, percentage of total world, percentage of GDP, trade in merchandise services, percentage of total merchandise trade, total labour force. The focus is on various factor service there has been unprecedented inflow of FDI in inward recent years. FDI involves the ownership and control of a Foreign company in the country. Portfolio investment is the most populat form of Foreign Direct Investment in India. FDI inflows in India has shown increasing trend over the period 2001 to 2010. FDI has increased in services, construction, chemical and pharma sector. The significance of FDI needs to be seen against the size of each economy to appreciate its importance. India has been rated as the fourth most attractive investment destination in the world, according to the global survey conducted by Er not and Young in June 2008. Present paper is an attempt to analyze the rate of foreign investment in economic growth of India.

Key words: Foreign Direct Investment (FDI), Foreign Investment, Growth rates, FDI inflows, FDI outflows, International market, Liberalization

Introduction

FDI has proved to stimulate economic growth an development in many of the countries. It not only promotes capital formation but also improves the quality of capital stock. In order to promote competitive markets developing nations must reduce restriction on FDI. In the past few decades, the world has witnessed an enormous growth in the phenomenon of cross border investment both in the form of foreign direct investment (FDI) and Foreign Portfolio Investment (FPI). So investment is an important factor in influencing the economic development of a country. The rationale of any economic system is to suit the needs of people of the country by utilizing the national resources which are predominantly limited. FDI has proved to stimulate economic growth and development in many of the countries. It not only promotes capital formation but also improves the quality of capital stock. In order to private competitive markets developing nations must reduce restriction on FDI.

India is now a part of the global economy. Ever sector of the Indian economy is now linked with the world outside either through direct involvement in international trade on through direct linkages with export and import.

FDI in India has played an important role in the development of the Indian economy during the recession. FDI in India has in a lot of ways enabled India to achieve a certain degree of financial stability, growth and development. This money has allowed India to focus on the areas that may have needed economic attention and address various problems that continue to challenge the country. The factors that attracted investment in India are stable economic policies, availability of cheap and quality human resources and opportunities of new unexplained markets. Mostly FDI are flowing in service sector and manufacturing sector recorded very low investments.

Objective of the Study

The objectives of the present study are as follows:

1. To examine the status of foreign direct investment in India.
2. To assess the prospect of FDI in Indian banking sector.

Foreign Direct Investment in India

In India, FDI is governed by the FDI policy announced by the Govt. of India and the provision of the Foreign Exchange management Act (FEMA) 1999. A foreign company planning to set up business operation in India may incorporate a company under the Companies Act 1956 as a joint venture or a wholly owned subsidiary and set up a liaison office/representative office or a project office or a branch office of the Foreign Company which can undertake activities permitted under the Foreign Exchange Management Regulation 2000.

Under FDI scheme, an Indian Company may receive foreign investment under two routes:

Automatic Route:

FDI in sectors/activities to the extent permitted under the automatic route does not require any prior approval either of the Government or the Reserve Bank of India.

Government Route:

FDI in activities not covered under the automatic route requires prior approval of the Government which are considered by the Foreign Investment Promotion Board (FIPB), Department of Economic Affairs and Ministry of Finance.

FDI is not permitted in the following industrial sectors:

* Arms and ammunition.
* Atomic Energy
* Railway Transport
* Coal and lignite
* Mining of iron, manganese, chrome, gypsum
* Sulphur, gold, diamonds, copper, zinc
* Lottery Business
* Gambling and Betting
* Business of Chit Fund
* Agricultural (excluding Floriculture, Horticulture, Development of seeds, Animal Husbandry, Pisciculture and cultivation of vegetables, mushrooms, etc. under controlled conditions and services related to agro and allied sector) and Plantations activities (other than Tea Plantations)
* Housing and Real Estate business.
* Trading in Transferable Development Rights (TDRs)
* Manufacturer of cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes.

Recent Trends

Some important measure announced for promoting foreign investment in the past reforms period. (i.e. the period since 1991) are as follows:

(1) In 1991, the Govt. announced a specified list of high technology and high-investment priority industries, wherein automatic permission was granted for FDI upto 51 percent to 74 percent and subsequently to 100 percent for many of these industries.

(2) In the process of liberalization of FDI Policy, the following policy changes have been made:

(i) 100 percent FDI permitted for business to business e-commerce.

(ii) Removal of cap on foreign investment in the power sector.

(iii) 100% FDI permitted in oil refinery

(3) FDI cap has been increased from 49 percent to 74 percent in basic and cellular telecom series. The raised cap includes both FDI and portfolio investment.

(4) FDI upto 26 percent in eligible under the automatic route in the insurance sector, and prescribed in the insurance Act, 1999, subject to their abounding licence from insurance regulatory and Development Authority (IRDA)

(5) FDI upto 100 percent in permitted in airports, with FDI above 74 percent requiring prior approval of the government.

(6) FDI upto 100 percent is permitted with prior approval of the government for development of integrated townships and regional urban infrastructure, tea sector, advertising and films.

(7) In January 2004, the government raised FDI limit to 100 percent in petroleum sector.

(8) Press note 18 which placed various restrictions on foreign investors/companies setting up business in India was reviewed and fresh guidelines issued in January, 2005.

(9) From May 20, 2011, government allowed FDI in limited liability partnerships, subject to specified conditions.

(10) The government announced significant FDI liberalization measures on September 14, 2012.

(i) 51 percent FDI allowed in multi-brand retail, but subject to state Govt. permission.

(ii) Foreign airlines allowed to invest upto 49 percent in the countries airlines.

The above discussion shows that significant changes have been made in the FDI policy regime in the recent times to ensure that India remains increasingly attractive and investor friendly. In the new policy regime, all activities have been put on automatic route on a negative listing basis except those that attract industrial licensing.

Year Wise FDI Equity Inflows

Financial Year (April-March)	Amount of FDI Equity inflows	
	(in rs. Crore)	(in US$ mn)
2011-12	165146	**35121**
2012-13	121907	**22423**
2013-14	147518	**24299**
2014-15	189107	**30931**
2015-16	262322	**40001**
2016-17	291696	**43478**
2017-18	**288889**	**44857**

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 always helps to create employment in the country and also support the small scale industries also the helps country to put an impression on the world wide level through liberalization and globalization.

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