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FOREIGN DIRECT INVESTMENT (FDI) - GROWTH AND EVOLUTION IN INDIA

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ABSTRACT
In growth and development of any country a major role is played by Foreign Direct investment. Availability of adequate capital is very much required for the purpose of overall development of a nation. With a sufficient amount of investments and savings domestically FDI is considered as a way of squeezing the gap. With states coming in with more and more investment opportunities, India as a whole is attracting much larger investments as compared to the last two decades. This study covers the trends of Flow of FDI. It also emphasizes on FDI inflows - country and sector wise. This paper refers to data collected through Secondary research collected from various Ministries, Departments and various multilateral organizations.

Keywords:- *FDI Inflows, Investment , Economic Policies*

INTRODUCTION

Foreign Direct Investment (FDI) is a key factor which determines the overall performance of an economy. It has always played a vital role in building up the economic structure as well as international affairs of a country. In India, FDI laws have seen a major shift post globalization in 1991 and has since been evolving, pertaining to the needs of the economic policies.

Foreign Direct Investment is the investment that an individual or an organization makes in a country while the parent source of the investment is based in another country. It is, when the investor directly invests in the economy by establishing ownership, controlling interest in a foreign company or by expanding operations of an existing business in that country.

The economic growth of a country can change to a great extent depending on its FDI which is why more and more nations are now formulating economic policies which are more liberal and welcoming for FDI. Investors are targeting economies where labor is cheaper and market is expansive. India is one of biggest targets of foreign investors because of the large workforce and changing lifestyles of people.

For an Indian company to receive FDI, there two routes, which are:-

Automatic route

The activities laid down under this route, do not require a prior approval from the government. They have the liberty of carrying on these activities without permission from the government.

Government route
The activities which are not listed under the automatic route are included in the government route. They need a prior approval from the government.

REVIEW OF LITERATURE
Gupta (2016) identified in their study that will foreign direct investment has a leading purpose to enjoy inside the commercial development of that host country. The majority of that area has been producing employ of foreign investment together with Foreign Technology to increase that speed of their commercial growth.

Khan (2016) directed some study to identify that impact of foreign direct investments with Indian current economic climate together with figured foreign direct investment (FDI) as some strategic element of investment should be applied just by India due to the permanent commercial growth together with development as a result of formation of work opportunities, improvement of existing manufacturing market sectors, short-term along with extended project inside discipline of medicine and health, education, research together with development.

Rachna S. S. (2015) focused on potentiality & strength of Indian service sector in shaping business through retail sector. The study also ascertained the remarkable changes in service sector & its overall impact in restructuring business through retail sector. The study also depicted the different role of services in the modern growing economy, reasons for such growth of services in India with addition of analyzing the transformation in service sector majorly. She further stated that due to emerging nature it has become the fastest-growing sectors on the global landscape & hence it made substantial contribution towards global output as well as employment generation. She quoted Adrian Payne four factors that is economic, political, social & demographic changes that have been responsible for stimulated growth in service sector. Furthermore she stated that Indian services share to Total GDP for the year 2013-2014 was 59.29 % & retail sector contributes by 14 % to 15 p% of its GDP for Indian economy & emphasized how retail industry get empowered. The study also revealed the major characteristics of the retail service sector in India & underlines its future prospects.

Mousumi B. & Jita B. (2014) an attempt has been taken to study the possible link between FDI inflows & Indian services export during the post-liberalization period from 1990-91 to 2007-08 . Long-term relationships among the variables have been analyzed using Johansen & Juselius multivariate co-integration approach. Short & long run dynamics had been captured through vector error correction models & parameters. There is an evidence of co-integration among the variables indicating that a long-term relationship exists among them. They have been observed unidirectional causality from FDI inflows to services export. Moreover , Regression Analysis has also been done for the period from 1991 to 2008, which revealed that FDI inflows specially in the services sector, consultancy & transport services influence services export. Also concluded that the positive & unidirectional Granger causality from FDI inflows to Services Export that indicated FDI has been trend of positively influenced the growth of services export in the Indian economy in the post liberalization period. During the post liberalization period the trade policies has undertaken by the government, the changing scenario of the government towards foreign direct investment (FDI) has increased export opportunities that also induced foreign investors to take the advantage of India's comparative advantage in the services sector.

Khurana Nikita (2013) studied the sector-wise distribution of FDI inflow to know about which has been concerned with the chief ratio, used a data from 1991-92 to 2011-2012 (post-liberalization period). This paper also discussed the various problems arisen about the foreign direct investment & suggests the some recommendations for the same.

S N Babar and B V Khandare, (2012), “Structure of FDI in India during globalisation period”. The study was mainly focus on changing structure & direction of Indian FDI during the period of Globalisation . The study has done through analysis of benefits of FDI for economic growth.

Lindsay O. (2011) revealed the different & separate proportions of exports & FDI used by manufacturing & service producing firms. He also suggested few models & the significance of interacting with customers & communicating complex information within the firms. These characteristics predicted the location of production. Goods & services requiring direct communication with consumers were more likely to be produced in the destination market. He also examined why service firms normally used FDI relative to exports at a much higher rate than manufacturing firms. The invisible cost of FDI was the difficulty of off-shoring non-routine activities to foreign affiliates & the industries that are more intensive in their use of non-routine tasks are more likely to be produced at home for export rather than produced at foreign affiliates. Because services are more non- routine than manufactures, this relationship partially offsets the propensity towards FDI in services implied by the role of communicating with consumers.

STATEMENT OF PROBLEM

The economic reforms undertaken after 1991 and post that Foreign Direct investment – country and sector specific received has been extensively covered in the paper. As FDI policies affect the stance of global players towards host country, this research paper explores where India stands as one of the preferred nations to do business. The inflows of FDI show the remarkable growth over the period of time. There is a need to conduct research to know the flows in terms of growth and trends of the foreign direct investment in India, especially by evaluating the performance of service sector. There is a need of comprehensive research which provides an empirical inter comparative study of service sector with other relevant sector and present the future estimation of the FDI inflows in these sectors. Therefore research is required to identify the basic determinants and flows that impacts on FDI in India. It will help investors, regulators and other participants in better decision making. Thus the research paper is important in understanding the FDI inflow. The study is also pertinent in considering the limitations that has led to a slow growth of FDI in some sectors.

OBJECTIVES OF THE STUDY

- To study the flows of Foreign Direct Investment & its impact on the economic development.
- To study the contribution of agriculture sector, industry and service sector in India’s economic growth.
- To show Trends of FDI of various Countries.

RESEARCH METHODOLOGY

A wide range of secondary research materials such as government reports, industry reports, corporate literature, academic reports, newspaper articles, and online media reports have been used. Examples: Industry reports and news articles: Circulars by Ministry of Commerce, Rajya Sabha’s Parliament report, India Brand Equity Foundation (IBEF) report on India's retail market and its opportunities Internet Sources: Ministry of Finance, Press releases of various organizations, World Bank Statistics

NEED FOR FDI IN INDIA

FDI, being an important component in Indian economy has now led to a market which has become dependent on it. A large workforce in India aims at working for international chains of companies here. Through high level of investment from FDI, the economy functions in a balanced way.

FOLLOWING ARE THE REASONS WHY INDIA NEEDS FDI

Employment in service sector

FDI, in service sector has provided a number of employment opportunities for the unemployed and literate people in India. Unemployment has always been a major economic problem in India but due to cheap labour and a large English speaking population, India has become a desired market for foreign investors.

High investment rate
For every economy to sustain in International markets, it is vital to have a high rate of foreign investment. For India, FDI has generated a high investment rate which has in turn stabilized the economy.

Technological aid
The high rate of technological advancement always leaves a gap between Indian technology processes and that of other countries. Indians always have to seek the help of foreign technological firms who are investors through FDI.

Infrastructural development
In a country like India, infrastructural development remains a major issue to focus on. Through FDI, foreign investors come ahead to proposed infrastructural development in developing countries.

CURRENT STATUS OF FOREIGN TRADE IN INDIA

FDI has always been a key factor which decides the foreign trade in India. Despite the hurdles faced by investors, the foreign trade has seen positive changes. India's foreign trade fluctuates depending on the FDI. According to the reports by Governments of India, Ministry of Commerce and Industry, the foreign trade up to July 2018 has seen an upward shift as compared to previous year.

Merchandise trade (Exports, including re-exports)
In July 2018, the exports saw a growth of 14.32 per cent from 2017. In 2017 the exports we're valued US $ 22.54 Billion which is Rs 1, 45,308.10 crore whereas in July 2018, it was US $ 25.77 Billion which amounts to Rs 1, 77,041.47 crore. The growth in rupee terms was 21.84 per cent.
Major commodity groups showing positive growth in July 2018 are cumulative value of exports between April to July 2018-2019. They we're US $ 108.24 which is Rs 7, 29,823.08 crore whereas previous year it was US $ 94.76 Billion which amounts to Rs 6, 10,780.14 crore. It registered a growth of 14.23 per cent in Dollars and 19.49 per cent in Rupees.
The total value of non-gems and non-petroleum and jewelry exports was US $ 16.98 Billion during 2017 whereas this year it has risen up to US $ 18.68 Billion, indicating a rise of 9.98 per cent. The same exports indicate value of US $ 78.84 Billion in April 2018-19 and US $ 69.70 Billion for 2017-18 showing a growth of 12.69 per cent.

Merchandise trade (imports)
The imports in July 2018 saw a rise of US $ 28.81 per cent in Dollars and 37.28 per cent in Rupees. The total value of which was US $ 43.79 Billion (Rs 3, 00,784.72 crore) in July 2018 and US $ 33.99 Billion (Rs. 2 , 19,108.89 crore) in July 2017. The cumulative value of imports between April to July 2018-19 was US $ 171.20 Billion (Rs 11,54,881.70) and in July 2017 it was US $ 146.26 Billion (Rs. 9,42,740.00 crore) registering a positive growth of 17.05 per cent
The commodities which showed a high growth in July 2018 in terms of exports are-

a. Crude oil and non-oil imports
Oil imports saw a rise of 57.41 per cent in Dollars and 67.76 per cent in Rupees in July 2018 from last year. The total value of oil imports in July 2018 was of US $ 12.35 Billion (Rs. 84,828.57 crore). In 2017 it was US $ 7.84 Billion (Rs. 50,565.29 crore). Oil imports between April- July 2018-19 were US $ 46.98 Billion (Rs. 3, 17,097.71 crore) which was 51.45 per cent higher in Dollar and 58.58 percent higher in Rupee terms compared to US $ 31.02 Billion (Rs. 1, 99,961.19 crore) last year.

However, Non-oil imports during July 2018 were around US $ 31.44 Billion (Rs. 2, 15,956.15 crore) which was 20.23 per cent higher in Dollars and 28.13 percent higher in Rupees. The same was around US $ 26.15 Billion (Rs. 1, 68,543.60 crore) in July 2017. Non-oil imports during April-July 2018-19 were valued at US $ 124.21 Billion (Rs. 8, 37,783.99 crore) which was 7.79 per cent higher in Dollar terms and 12.79 percent higher in Rupee terms compared to US $ 115.23 Billion (Rs. 7, 42,778.81 crore in April-July, 2017-18.

b. Trade balance

Merchandise- : The deficit in trade for July 2018 was estimated at US $ 18.02 Billion as compared to the deficit of US $ 11.45 Billion during July 2017.

Services: As per RBI's Press Release dated 14th August 2018, the trade balance in Services (i.e. net export of Services) for June, 2018 was estimated at US $ 6.57 Billion.

Overall Trade balance: Taking merchandise and services together, overall trade deficit for April-July 2018-19 is estimated at US $ 43.77 Billion as compared to US $ 34.07 Billion during April-July 2017-18.

c. Trade in service sector

(Exports- For June 2018)

Comparing the exports in June 2018 with May 2018 shows a rise of 4.32 per cent indicating a positive growth whereas in May it went down to 7.91 per cent.

(Imports- for June 2018)

Imports during June 2018 went up to US $ 10.30 Billion (Rs. 69,820.11 Crore) registering a positive growth of 0.89 per cent in dollar terms as compared to negative growth in May 2018 of 6.48 per cent.

According to Census on Foreign Liabilities and Assets of Indian Direct Investment Companies, released by the Reserve Bank of India in January 2018, Mauritius was the largest source of Foreign Direct Investment in India, it was followed by the US and the UK. Singapore and Japan were the next two sources of FDI in India.

CHANGING POLICY REGIME OF FDI IN INDIA

Since the introduction of Foreign Direct Investment, India's policies have been changing according to the needs of the economy. After liberalization of economy a number of new additions were made in policy regime which included easier routes for FDI.

1. Policy regime pre-Liberalization

Pre- Liberalization India's policy regime towards FDI was stringent and followed a selective approach. In 1973, under the Foreign Exchange Regulation Act (FERA) the regulatory framework was formed whereby a foreign equity holding a joint venture was allowed only 40% FDI. However, there were some exceptionss, for example foreign companies indulged in high priority, high technology and certain export oriented businesses were allowed to hold more than 40%. The Industrial Policy (1980 and 1982) and Technology Policy (1983) brought in further relaxations for foreign investors.

2. Policy regime post-Liberalization

The gates of liberalization opened in 1991 in India which aimed at advancing the economic conditions in the country. It was a turning point for FDI in India. A number of relaxations were implemented on FDI policies which included introduction of dual route approval, automatic permission for technology agreements in high priority areas, permission to non-resident Indians and Overseas Corporate Bodies (OCBs) to invest up to 100% in high priority areas, hike in foreign equity participation and signing the Convention of Multilateral Investment Guarantee Agency (MIGA) for protection of foreign investments.

Later, in 1997, 100% FDI was allowed by government of India in cash and wholesale FDI and 51% in single brand retailing. In 2012, 100% retailing was allowed for single brand retailing and 51% for multi brand retailing.

Table: Share of Agriculture, Industry and Services in GDP of India since 2000-2017

(Figures are in per cent)

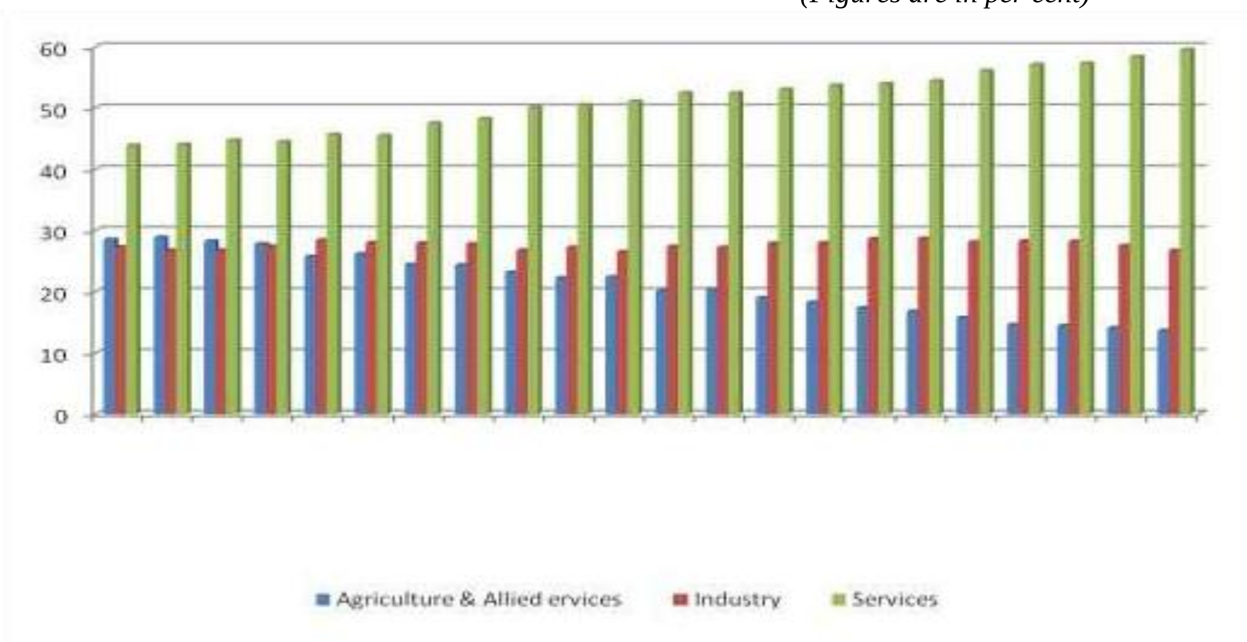
Year	Agriculture	Industry	Services
2000-01	26.19	28.03	45.51
2001-02	24.47	27.95	47.53
2002-03	24.39	27.78	48.24
2003-04	23.18	26.77	50.05
2004-05	22.26	27.25	50.49
2005-06	22.39	26.54	51.07
2006-07	20.13	27.39	52.48
2007-08	20.33	27.22	52.44
2008-09	19.03	27.93	53.05
2009-10	18.27	27.99	53.74
2010-11	17.37	28.65	53.98
2011-12	16.81	28.74	54.45
2012-13	15.77	28.13	56.11
2013-14	14.64	28.27	57.09
2014-15	14.45	28.23	57.32
2015-16	14.1	27.51	58.39
2016-17	13.69	26.75	59.57

Source: Various planning Commission Reports.

This above table represent the share of Agriculture & Allied activities, Industry and Service Sector in GDP of India from 2000 to 2017. The services sector, with around 60 per cent contribution to the Gross Domestic Product (GDP) in 2016-17, has made rapid strides in the past decade and a half to emerge as the largest and one of the fastest-growing sectors of the economy. The services sector is not only the dominant sector in India‘s GDP, but has also attracted significant foreign investment flows, contributed significantly to exports as well as provided large-scale employment. India‘s services sector covers a wide variety of activities such as trade, hotel and restaurants, transport, storage and communication, financing, insurance, real estate, business services, community, social and personal services, and services associated with construction. The agricultural activities, with around 14 per cent contribution in GDP in 2015-16, declined from 28.54 per cent at the time of liberalization. Industry has a constant share during the study period and stood at 26.75 per cent contribution in GDP at the end of 2015-16.

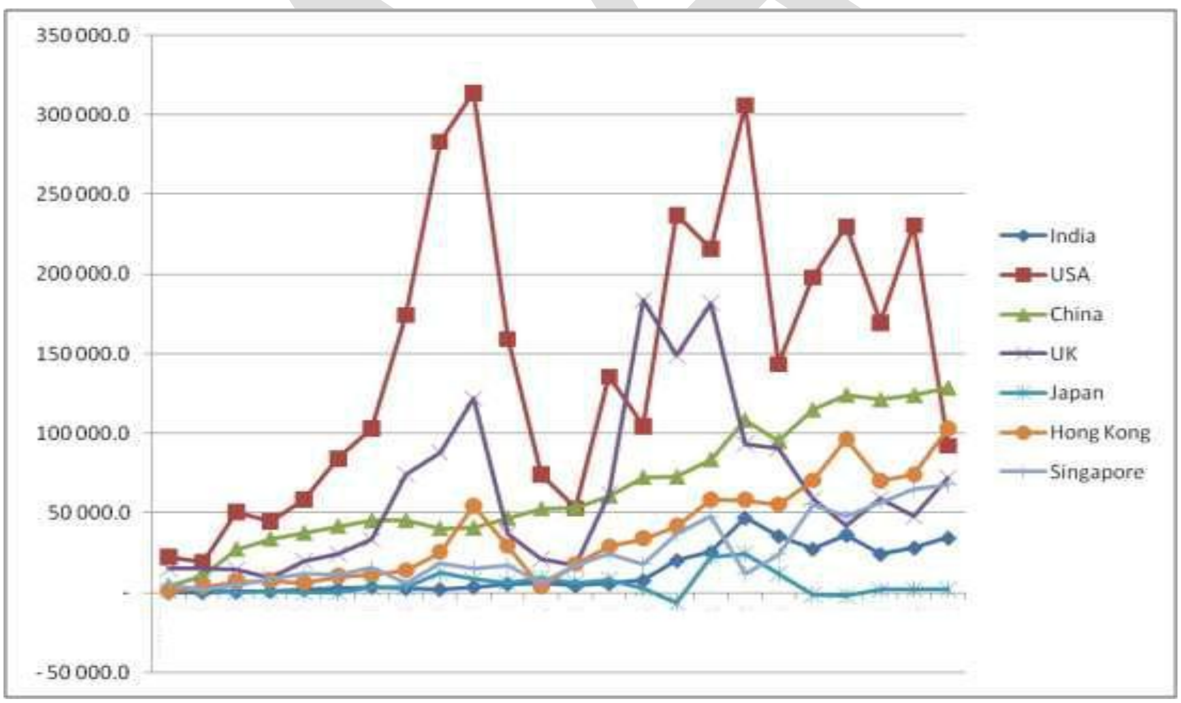
Figure: Trends of Share of major sector in GDP in India

(Figures are in per cent)



Source: Various planning Commission Reports.

Figure: Trends of FDI of various Countries *(Figures in millions US$)*



Source: Compiled from various UNCTAD Report.

Table: Country specific FDI Inflows In 2017

(figures in billion US$)

Country	FDI
Netherland	30
India	34
Australia	52
Canada	54
Brazil	62
Singapore	68
UK	72
US	92
Hong Kong	103
China	129

Source: Compiled from various UNCTAD Report.

INVESTMENT OPPORTUNITIES IN INDIA

As such investment opportunities is concerned, the services sector of India has attracted the highest amount of FDI equity inflows in the period April 2000-May 2015 (2016-17 exact data not available), amounting to about US$ 43.35 billion which is nearly about 16.8 per cent of the total foreign inflows, according to the *"Department of Industrial Policy and Promotion (DIPP)"*. ***Few of the essential developments and major investments by companies in the services sector in the recent past are as follows:***

- The Indian facilities management market (IFMM) is expected to grow at 17% CAGR between 2017 & 2020 & surpass the $19 billion mark supported by booming real estate, retail & hospitality sectors.
- Fairfax India trying to acquire controlling stake in as collateral management & firm of weather advisory (NCML) National Collateral Management Services where the deal size could be in between $150-180 million.
- Amazon, the largest online retailer of world , has plans to invest Rs 31,700 crore (US$ 5 billion) in India in addition to the US$ 2 billion investment it committed 02 years ago, in expanding its huge network of warehouses, data centers & increasing its online marketplace. Besides launching an instant ecommerce which is video & subscription-based services for high-end buyers, called Amazon Prime, this year.
- In India the private security services industry is expected to register a growth of over 20 % over the next few years, doubling its market size to Rs 80,000 crore (US$ 12.94 billion) by 2020.
- The Indian government has awarded a contract worth Rs 1,370 crore (US$ 221.63 million) to Ricoh India Ltd & Telecommunications Consultants India Ltd (TCIL) to modernize

129,000 post offices through automation system.

- Ola plans for Taxi service aggregator to double operations to 300 cities in current fiscal year. The company, which is also looking at small towns for growth perspective, also has plans to invest in driver eco-system, for eg- training centers & technology upgrade, besides adding 1,500 to 2,000 women drivers as part of its pink cab service by women for women.
- JP Morgan Investment Management Inc ,JP Morgan Asset Management (UK) Ltd & JP Morgan Chase Bank NA have together acquired 4.11% stake in Mahindra & Mahindra Financial Services Ltd for Rs 113.75 crore (US$ 18.13 million).
- The Nikkei Services PMI for India stood at 51.8 – a reading above 50 signals expansion.

HURDLES FACED BY INVESTORS

According to researches, India is potentially a vast market for foreign investors but yet, it lags behind in generating FDI. With a huge work force, cheap labor and a large English speaking population, India is considered a key player in FDI.

Despite relaxing and liberalizing FDI laws, India is facing hurdles in inviting FDI because of the following reasons-

1. Absence of decision making authority at state level

In countries where FDI is blooming, the decision making authority rests with the regional and state governments, which help in better and efficient flow of FDI. In India, the authority of FDI is with the Central government, which does not make decisions keeping in mind the cultural differences.

2. Lack of infrastructure

Infrastructural defects are a major reason why investors are left ambiguous about investing in Indian market. A major issue is that of frequent power cuts which leads to cutting down of hours of work and might cause heavy machinery to break down.

3. Political instability

Different political parties have a different take on the status of FDI in India. It has been a much debated topic because every expert has a varied opinion on the issue. This lack of clarity has become major hurdle for FDI.

4. Rigid labor laws

The labor laws in India are very stringent because of which the investors hesitate in investing here. For removing an employee, the firm needs the approval of the state government which can be a problematic and hectic task. Such laws act as a barrier for FDI.

5. Exorbitant taxes

In India, the corporate tax rate is 48% where as in rest of East Asia it is 15%-30%. This disparity in tax rates makes other countries a better option for the investors. The labor in India maybe cheap but the tax rate makes up for it.

6. Corruption

Corruption in India has escalated to a level where it has become difficult to curb it. It occurs at every level and in every profession. This has been one of the major reasons for many foreign investors to withdraw from investing in India.

FINDINGS OF THE STUDY

- It is found that FDI inflows in the Indian service sector have significant impact on the foreign investment across other sector. It is also observed that FDI in service sector have both short – run and long – run effect on the economy.
- It is found trends in FDI inflows in service sector shows that initially the inflows were low but there is a sharp rise in investment flows.
- The service sector has played important role among all sectors and consist of highest share in the GDP during the study period under consideration. Further, service sector is followed by Industry, manufacturing and Agriculture.

- Although, study shows the increasing trend in the FDI Inflows in the Indian service sector. This can be utilized by the government of India in policy formulation and implementation concerning FDI Inflows.

CONCLUSION

FDIs have created tremendous opportunities for India's development and helped to boost the performance of local firms as well as the globalization of some of them. This has undeniably raised India's stature among developing countries. India needs massive investments to sustain high-quality economic growth, particularly in the energy and infrastructure sectors. Policymakers are looking at FDI as the primary source of funds. It is important to keep in mind that FDI on its own is not a panacea for rapid growth and development. The policy makers should ensure optimum utilization of funds and timely implementation of projects. The government should allow more attention on the total FDI inflows and the same will bring FDI Inflows in the Indian service sector. The government should provide additional incentives to foreign investors in states where the level of FDI inflows is quite low. Government must target at attracting specific types of FDI that are able to generate spillover effects in the overall economy.What India needs is to put in place a comprehensive development strategy, which includes being open to trade and FDI. This should go a long way in fulfilling the ultimate goal of permanently eradicating poverty as well.

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