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Trends and Patterns of Fdi in India

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ABSTRACT

Development of the nation depends upon Foreign Direct Investment. Sometimes domestically available funds are insufficient for the purpose of overall development of the nation. Foreign capital is the key which is filling this gap between local funds and investment. Now a day's India can attract much larger foreign investments than it has done in the past. The present study has focused on the trends of FDI Flow in India during 2000-01 to 2015-16 (up to September, 2015). The study also highlights country wise approvals of FDI inflows to India and the FDI inflows in different sector for the period April 2000 to sept 2015. The study based on Secondary data which have been collected through reports of the Ministry of Commerce and Industry, Department of Industrial Promotion and Policy, Government of India, Reserve Bank of India, and World Investment Report. The study concludes that Mauritius emerged as the most dominant source of FDI contributing. It is because the India has Double Taxation Avoidance Agreement (DTAA) with Mauritius and most of the foreign countries like to invest in service sector.

KEYWORDS: Foreign Direct Investment (FDI); Sectors; Country wise FDI

INTRODUCTION

Investment in a country by individuals and organization from other countries is an important aspect of international finance. Their flow of international finance may take the form of portfolio investment (acquisition of securities) or direct investment (creation of productive facilities). The essence of FDI is the transmission to the host country of a package of capital, managerial skill and technical knowledge.

The wave of liberalization and globalization sweeping across the world has opened many national markets for international business. Global private investment in most part is now made by transnational corporations (TNCs) also referred to as multinational corporation (MNCs). Clearly, these transnational organizational plays a major role in world trade and investment because of their demonstration management skill, technology, finance recourses and related advantages. Recent development in the global market is indicative of the rapidly growing international business. The end of the 20th century has already marked a tremendous growth of international investment, trade and financial transactions along with the integration and openness of international markets.

Foreign investment is generally classified into two categories, namely, Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI). In contrast to direct investment, FPI includes funds such as fresh inflows of funds from foreign institutional investors and funds raised by domestic corporations through ADRs/GDRs. FDI refer to an investment involving long-term relationship and reflecting a lasting interest and control of a resident entity of one economy is an enterprise resident of another economy other than that of foreign investor. FDI implies that the investor exerts a significant degree influence on the management of the enterprise resident in the other economy. It takes the form of-

i. acquiring stocks of the existing foreign enterprise to participate in the management of the concerned enterprise;

ii. establishing abroad new subsidiary with 100% ownership;
iii. participating in joint venture through stocks holding; and
iv. Establishing new branches or expanding existing ones.

The three main components of FDI are:

i. Equity capital, which involves foreign investor's purchase of shares of an enterprise in a country other than its own.
ii. Reinvested earnings, which refer to the foreign investor's share of earnings that are not remitted to it by the affiliate as dividends, but are reinvested or ploughed back into the affiliate enterprise in the host country.
iii. Intra-company loans or intra-company transactions refer to short and long term borrowing and lending of funds by parent investors and their affiliate enterprise in the host country.

FPI involves purchase of existing bonds and stocks with the sole of objectives of obtaining dividends pr capital gains, which is short term in nature but FDI tends to the more long term in nature with an aim to control over management/production or the operations of the subsidiaries/affiliates, which in turn creates a lasting interest for the foreign investor in the subsidiary.

The dimension, called 'controlling interest', is the most important factor separating FDI FPI. A 'controlling interest' means that some degree of independent decision making by the foreign investor is present in the management policies and strategies of the company. Commonly, when a foreign firm holds a minimum 10% of the shares of the company, it can exert significant influence over the key policies of the local firm. Hence, FDI today is defined as foreign investment with a controlling share of 10% or above.

Route of FDI flow:

FDI can be approved either through the automatic route or by the government.

- **Automatic route:**

  Companies proposing foreign investment under the automatic route do not require any government approval, provided the proposed foreign equity is within the specified ceiling and requisite documents are filed with Reserve Bank Of India (RBI) within 30 days if receipt of funds. The proposals where the items of manufacturing activity do not require are industrial license and is not reserved for the small-scale sector.

  The automatic approval route of the RBI was introduced to facilitate FDI inflows. However, during the post policy period, the actual investment flows through the automatic route of the RBI against total FDI flows has been quite insignificant. While FDI flows through the automatic route accounted for 15.18 percent of the total FDI inflows in 1993-94, its share has declined since then and was only 8.68 percent in 1999-2000. This is partly due to the fact that crucial areas like electronics, services and minerals are left out of the automatic approval route. Another limitation has been the ceiling of 51percent on foreign equity holding. An increasing number of proposals were cleared through the foreign investment promotion board (FIPB) route which the automatic approval route has been declining in the relative importance since 1994.

- **Government approval**:

For the following categories; government approval for FDI through the FIPB is necessary: a) proposals attracting compulsory licensing, b) items of manufacture reserved for the small scale sector and c) acquisition of existing shares.

- **Foreign investment promotion board (FIPB)**:

The FIPB us especially empowered to engage in purposive negotiation and also consider proposals in totality free from predetermine parameters on procedures. Industry secretary is the chairman of FIPB. The Finance Secretary, commerce Secretary and Secretary (Economic Relation) ministry of external affairs are the other member of the FIPB.

The approach of FIPB is liberal for all sectors and all types of proposals. The totality of package proposed is examined and approved an merits within a period of 30 days. The RBI has granted general permission under Foreign Exchange Regulation Act (FERA) in respect of proposals approved by the government Indian companies getting foreign investment approval through FIPB route do not require any further clearance from RBI for the purpose of receiving inward remittance and issues of shares to the foreign investment such companies are, however, required to notify the Regional office concerned of the RBI of receipts of inward remittances within 30days if such receipt and to file the required document with the concerned Regional offices of the RBI within 30 days after issue of shares to the foreign investors.

- **Foreign Investment Promotion Council** :

The Government has constituted a Foreign Investment Promotion Council (FIPC) in the ministry of industry. It has been setup to have more target oriented approach towards foreign direct Investment Promotion. Its function is to identify the sector/project within to country requirement foreign direct investment and target-specific regions/countries of the world from where FDI will be brought through.

REVIEW OF LITERATURE:

A vast number of empirical studies have been conducted regarding the force that determines FDI. The literature However is not only extensive, but also confusing and conflicting. Most of the studies utilize multiple number of theories or hypothesis in an attempt to investigate the empirical linkage between FDI and a variety of economic variables.

A wide range of argument exists in support of the various sets of classification. Aggarwal(1980) classifies the theories of FDI into four group (1) full competition on factor and/or product markets (includes theories of differential rate of return, portfolio diversification and output and market size), (2) Market imperfections and comparative advantages (include theories of behavioral economic, product cycle, oligopolistic reaction and international, (3) Propensities of countries, industries or firms to undertake FDI (liquidity and currency area theories), (4) Propensities of countries to attract investment.

According to Boddewyn (1980), theory may be classified on the basis of (1) condition,(2) motivation, and (3) precipitating circumstance connected to FDI. Boddewyn(1985) mentioned that these categories are general researcher in the possibility of overlapping and it is necessary to recognize that, despite common characteristics, " organization specific that any valid theory must consider factors such as changes in transportation and communication facilities, changes in government policies and the advent of chief executive officer who is willing to invest or disinvest.

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The work Hymen (1993) was the main impetus for the development of micro level theories. Hymen (1993) emphasizes the fact that TNCs must have certain additional advantages not possessed by local firms (e.g. technological advantages include research & development capabilities, organizational advantages such as economic of scale managerial and entrepneurial advantages etc). John Dunning (1988) has emphasized that the advantages of international must interact with both firm specific and locational advantages to explain FDI. In order to combine the available evidence, he has developed eclectic theory which is based on the OLI (ownership location and internationalization advantages) paradigm- succeeded in satisfactorily explaining the international activities of firms.

According to Wilhelm's (1998), existing literature, on the causes, determinate and effects of FDI suggests a possible classification of FDI into three main Schools. First the dependency school which comprise neo-Marxist and structuralize theories. Second, the modernization school which is founded in a perfect market approach primarily represented by theories of neo-classical brand. Its also includes the imperfect market approach as represented by such theories as industrial organization theory. Third the integration school is represented by the eclectic FDI paradigm, negotiation theory and integrative theory.

OBJECTIVES OF THE STUDY

1. To Study the trends of FDI Flow in India during 2000-01 to 2015-16 (up to September, 2015)

2. To analyze the FDI flows as to identify country wise approvals of FDI inflows to India.

3. To analyze the Sector wise distribution of FDI inflows.

NATURE AND SOURCE OF DATA

The present study is based on Secondary data. The relevant secondary data has been collected from reports of the Ministry of Commerce and Industry, Department of Industrial Promotion and Policy, Government of India, Reserve Bank of India, and World Investment Report. The time period of the study has been take April 2000 to September 2015.

TRENDS ANS PATTERN OF FOREIGN DIRECT INVESTMENT INFLOW

Table 1: Foreign direct investment inflows (US$ million) 2000-2015

Financial Year	FDI Inflow in US$ Millions
2000-2001	2463
2001-2002	4065
2002-2003	2705
2003-2004	2188
2004-2005	3219
2005-2006	5540
2006-2007	12,492
2007-2008	24,575
2008-2009	31,396
2009-2010	25,834
2010-2011#	21,383
2011-2012#	35,121

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2012-2013#	22,423
2013-2014#	24,299
2014-2015#	30,931
2015-2016#(April-September 2015)	16,631

Source: DIPP, Federal Ministry of Commerce & Industry, Government of India

Figure for 2010-2011, 2011-2012, 2012-2013, 2013-2014 and 2015-2016 are provisional subject to reconciliation with RBI.

According to UNCTAD (2007), India has emerged as the second most attractive destination for FDI after China and ahead of the US, Russia and Brazil. While India has experienced marked rise in FDI inflows in the last few years (doubling from an average of US$5-6 billion the previous three years to around US$ 19 billion in 2006-07), it still receives far less FDI flows than China or much smaller economies in Asia like Hong Kong and Singapore was ahead of India. Table 5.1 (Department of Industrial Policy & Promotion Ministry of Commerce and Industry) shows the year wise FDI inflow for India (2001-2015). FDI inflows have increased from US$ 2463 million in 2001 to US$ 30931 million in 2015. This reflects the overall development in the different sectors attracting FDI from other countries due change in government policies and other relative parameters

.**Table 2: Country -Wise FDI Inflows from April 2000 to September 2015**

Amount Rupees in crores (US$ in millions) Ranks	***Country***	***Cumulative Inflows (April '00 -*** **September '*15)***	***Cumulative Inflows (April '00 -*** **September '*15)***
1.	**MAURITIUS**	**23,490 (3,667)**	**34 %**
2.	**SINGAPORE**	**43,096 (6,694)**	**15 %**
3.	**U.K.**	**2,287 (353)**	**9 %**
4.	**JAPAN**	**5,219 (815)**	**7 %**
5.	**NETHERLANDS**	**7,017 (1,098)**	**6 %**
6.	**U.S.A.**	**5,435 (854)**	**6 %**
7.	**GERMANY**	**4,398 (693)**	**3 %**
8.	**CYPRUS**	**1,821 (284)**	**3 %**
9	**FRANCE**	**1,624 (254)**	**2 %**
10.	**UAE**	**1,686 (262)**	**1 %**
TOTAL FDI		**1,340,231**	

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INFLOWS FROM ALL COUNTRIES *		**(265,265)**	

Source: DIPP, Federal Ministry of Commerce & Industry, Government of India

***Includes inflows under NRI Schemes of RBI.**

Note: (i) Cumulative country-wise FDI equity inflows (from April, 2000 to **September*, 2015) are at – Annex-'A'.***

(ii) %age worked out in US$ terms & FDI inflows received through FIPB/SIA+ RBI's Automatic Route + acquisition of existing shares only.

Table depicts the country wise FDI inflow in India during April 2000 –sept 2015. Mauritius emerged as the most dominant source of FDI contributing 23,490 US$ million of the total investment in the country. It is because the India has Double Taxation Avoidance Agreement(DTAA) with Mauritius . This (DTAA) type of taxation treaty has been made out with Singapore .So Singapore is second largest Investor of FDI inflow in India. The other major countries are U.K with a relative share 2287 US$ million followed by Japan. While some countries like netherland, U.S.A, Germany, cyprus, France, UAE has fewer shares in total FDI Inflow.

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Table 3: Sector -Wise FDI Inflow from April, 2000 to September, 2015

S. No	*Sector*	*Cumulative Inflows (April '00 -* **September '15)**	*% age to total Inflows (In terms of US$)*
1	**SERVICES 1 SECTOR ****	**222,343 (45,367)**	**17 %**
2	**CONSTRUCTION DEVELOPMENT: TOWNSHIPS, HOUSING, BUILT-UP INFRASTRUCTURE**	**113,726 (24,156)**	**9 %**
3	**COMPUTER SOFTWARE & HARDWARE**	**93,337 (18,170)**	**7 %**
4	**TELECOMMUNICATIONS** (radio paging, cellular mobile, basic telephone services)	**88,329 (17,717)**	**7 %**
5	**AUTOMOBILE INDUSTRY**	**74,274 (14,002)**	**5 %**
6	**DRUGS & 7, PHARMACEUTICALS**	**66,563 (13,321)**	**5 %**
7	**CHEMICALS (OTHER THAN FERTILIZERS)**	**52,400 (10,823)**	**4 %**
8	**TRADING**	**58,524 (10,335**	**4 %**
9	**POWER**	**49,243 (9,967**	**4 %**
10	**METALLURGICAL INDUSTRIES**	**42,069 (8,687**	**3 %**

Source: DIPP, Federal Ministry of Commerce & Industry, Government of India

Table 3 clearly show the FDI inflows in different sector for the period April 2000 to sept 2015 data reveals that most of the Foreign countries like to invest in service sector. Services sector include Financial, Banking, Insurance, Non-Financial / Business etc. Share of Service sector in total FDI is 17 per cent. Second largest share of FDI is in the construction development. Large amount of FDI has also taken place in telecommunication sector. The telecom industry is now become one of the fastest growing industries in India. Some Sector like Information & Broadcasting, Electrical Equipment attracts less FDI in country.

CONCLUSION

India emerges as the fifth largest recipient of foreign direct investment across the world. India is considered second largest country amongst all further developing countries and ranks fourth in the PPP in the world. So India has high potential to attract FDI inflow. The present study found that total FDI inflow in India from April 2000 to september 2015 is 392,262 US$ million. The study also reveals that Mauritius emerged as the most dominant source of FDI contributing 91,222 US$ million of the total investment in the country. Large part of FDI in India is contributed by ten countries which is 265,265 US $ million. The services sector accounted for a steeply rising share of FDI stocks in India followed by construction development, Telecommunications and Computer Software & Hardwar.

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