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FDI in India: Opportunities and Challenges

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Abstract:

Since liberalization Foreign Direct Investment (FDI) has become the most important source of foreign capital in India. The main objective of this study is to examine the year wise, country-wise, state-wise and sector-wise FDI inflows in India during 2000-01 to 2014-15. The study found that, flow of FDI has a significant impact of Indian Economy. However state wise, sector wise and country-wise FDI in flows is not uniform. There are many hurdles in the way of FDI inflows. The government Therefore, should develop fast truck clearance, change the mind set of bureaucracy and create conducive atmosphere through the development of basic infrastructure.

Key words: FDI, FEMA, FIPB, FIIA, New Economic Reforms

1. INTRODUCTION

Foreign Direct Investment (FDI) plays an important role in the economic development of a developing economy like India. FDI inflows mean the Investment which a country receives from other countries, which in turn help the host country to have access to new technologies, capital and organizational technologies and management skills. Since 1991, the Government of India has embarked on liberalization and economic reforms programme with a view to bring about rapid and substantial economic growth and move towards globalization of the economy. The new economic policies have substantially relaxed restrictions on foreign investment, industrial licensing and foreign exchange.

2. FDI PROCEDURE AND POLICIES

The foreign investment policy has been liberalized by the government to promote the inflow of foreign direct investment. Some important policy measures are as under:

1. The foreign equity participation was allowed up to 40 percent of total equity capital of a company during pre-liberalization period. The liberalized Foreign Investment policy has allowed FDI up to 51 percent in 34 high priorities industries.
2. FERA conditions were liberalized with effect from January 8, 1993 and later on FERA was replaced by FEMA.
3. The FDI under automatic route has been permitted up to 100 percent for all manufacturing activities in Special Economic Zones (SEZ's) expect certain activities.
4. The government has set up the Foreign Investment Implementation Authority (FIIA) and Foreign Investment Promotion Board (FIPB) to consider FDI proposals.
5. Foreign equity participation has been allowed up to 49 percent in telecommunication, 50 percent in mining and 51 percent in hotel and tourism.
6. The Government established joint company of public and private sectors named 'Invest India' has been constituted to promote FDI.
7. RBI permitted 100 percent FDI respect of allied activities of floriculture, horticulture, development of seeds, animal husbandry, aquaculture, cultivation of vegetables, mushrooms and services related to agro and allied sectors.
8. The government has increased the FDI investment in insurance sector from 26 percent to 49 percent through FII, FPI, Venture Capital and nonresident investment.

3. REVIEW OF LITERATURE

Gupta (2005) concluded that India fully liberalized its economy and thus become completely open to FDI. Choong et al. (2004) and Hermes and Lensink (2003) concluded that India compares favorably with China in terms of financial market development, which represents another factor favoring growth effects of FDI. Alfaro (2003) Showed that the growth impact of FDI varies across sectors, with positive and significant effects visible only in the manufacturing sector. Venkata suresh B and Ramakrishna K. (2013) concluded that, the sectoral level output, output, productivity and export was less due to the low flow of FDI into India both at the macro level as well as at the sectoral level.

4. OBJECTIVES:

The specific objectives of the study are:

1. To explain the FDI Policy in India.
2. To analyze year wise, country-wise, state-wise and sector wise FDI inflows in India during 2000-01 to 2014-15.
3. To suggest suitable measures based on the observations to gear up the pace of FDI.

5. METHODOLOGY:

The present study is descriptive in nature. It is mainly based on secondary data. The secondary data during 2000-01 to 2014-15 were collected from its authorized websites like Department of Industrial Policy and Promotion, Government of India, Ministry of Commerce and Industry, Various Published Books, Journals, Periodicals and RBI Publications.

6. FINDINGS AND DISCUSSION:

The trends in FDI, especially year wise, route wise, country wise, sector wise and state wise trends are discussed in this section. The major observations in this regard are as follows:

6.1 Foreign Investment Inflows:

Generally, foreign investment inflows are classified into two categories - Foreign Direct Investment (FDI) and Indirect or Portfolio Investment. Table 1 shows the share of FDI in total Foreign Investment Inflows in India during 2000-01 to 2014-15. The proportion of FDI inflows to total Foreign Investment Inflow was 59.35 percent in 2000-01 and varied between 27.53 to 157.77 percent during 2003-04 to 2008-09. This share declined to 51.97 percent in 2014-15. The proportion of FDI inflows to total foreign investment was 62.72 percent during 2000-01 to 2014-15.

Table -1 Foreign Investment Inflows in India (2000-01 to 2014-15)
(US $ Million)

Sr. No.	Years	Foreign Direct Investment	Total Foreign Investment	% Share of FDI to Total Foreign Investment
1	**2**	**3**	**4**	**5**
1.	2000-01	4029	6789	59.35
2.	2001-02	6130	8151	75.21
3.	2002-03	5035	6014	83.72
4.	2003-04	4322	15699	27.53
5.	2004-05	6051	15366	39.38
6.	2005-06	8961	21453	41.77
7.	2006-07	22826	29829	76.52
8.	2007-08	34835	62106	56.10
9.	2008-09	37838	23983	157.77
10.	2009-10	37763	70139	53.84
11.	2010-11	30380	61851	49.12
12.	2011-12	46556	63368	73.47
13.	2012-13	34298	61880	55.43
14.	2013-14	36046	41055	87.80
15.	2014-15	44291	85214	51.97
Overall Total (2000-01 to 2014-15)		**359361**	**572897**	**62.72**

Source:- 1. RBI (2010): Handbook of Statistics on Indian Economy 2009-10, P. 260.

2. Govt. of India (May 2015): Fact sheet on Foreign Direct Investment (FDI), Ministry of Finance, New Dilhi.

6.2 Country Wise Inflows:

Capital flows from various countries are generally welcome in a developing economy like India. Table -2 gives details regarding country wise FDI inflows during 2000-01 to 2014-15. A close look at the Table 2 the shows that share of Mauritius was the highest (34.85 percent) in FDI inflows. This was followed by Singapore (13.70 percent), U.K. (8.70 percent), Japan (7.30 percent), Netherlands (6.00 percent) and U.S.A. (6.00 percent). Thus these six countries contributed 76.15 percent of total FDI during 2000-01 to 2014-15.

Table -2 Country wise FDI Inflows in India (Apr. 2000 to May.2015)
(US $ Million)

Ranks	Country	Cumulative Inflows	% as to Total Inflows
1	**2**	**3**	**4**
1	Mauritius	89241	34.85
2	Singapore	35089	13.70
3	U.K.	22265	8.70
4	Japan	18647	7.30
5	Netherlands	15258	6.00
6	U.S.A.	14303	5.60
7	Germany	8155	3.20
8	Cyprus	8066	3.15
9	France	4607	2.00
10	U.A.E.	3091	1.20
Total FDI Inflows from all countries		**256088**	---

Source: same as Table No. 1.

6.3 Sector Wise FDI Inflows

Sector wise classification of FDI is essential to understand the trends, structure and direction of Foreign Investment in the country. Table 3 shows that Services sector has been the highest receiver of FDI inflow in India (17 percent), followed by Construction development (9), Telecommunications (7 percent), Computer Software and Hardware (7 percent), Automobile Industry (5percent) and Drugs & Pharmaceuticals (5 percent). Thus these six sectors received 50 percent of total FDI inflows during 2000-01 to 2014-15.

Table -3 Sector wise FDI Equity Inflows (Apr. 2000 to May 2015)
(US $ Million)

Ranks	Sector	Cumulative Inflows	% age to Total Inflows
1	**2**	**3**	**4**
1	Services Sector (financial & non-financial)	43202	17
2	Construction Activities (including roads & highways)	24066	9
3	Telecommunications (radio paging, cellular mobile, basic telephone services)	17422	7
4	Computer Software & Hardware	17291	7
5	Automobile Industries	13390	5
6	Drugs & Pharmaceuticals	13280	5
7	Chemicals	10487	4
8	Power	9712	4
9	Trading	8724	3
10	Metallurgical Industries	8621	3

Source: www.dipp.gov.in/fdi-statistical figure-India-FDI, May 2015

6.4 FDI in States and Regions

The regional distribution of FDI in India shows the concentration of investment in some States and Regions. All the states give top priority to attract FDI on a large scale for developmental purpose. However, the distribution of FDI is heavily skewed among the states as can be seen from Table 4. Among States/Region Maharashtra, Dadara and Nagar Haveli, Daman and Div bagged 29 percent of FDI inflows during 2000-01 to 2014-15, follows by New Delhi, part of Uttar Pradesh and Haryana (20.50 percent), Karnataka (7 percent), Tamilnadu and Pondicherry (7 percent) and Gujarat (5 percent) .

Table 4 State/ Region wise FDI Equity Inflows* (Apr. 2000 to May 2015)
(US $ Million)

Sr. No.	RBI's Regional Office	State Covered	Cumulative Inflows	% as to Total Inflows
1	**2**	**3**	**4**	**5**
1.	Mumbai	Maharashtra, Dadara & Nagar Haveli, Daman & Div	74795	29.00
2.	New Delhi	Delhi, Part of UP & Haryana	51982	20.00
3.	Chennai	Tamilnadu & Pondicherry	17802	7.00
4.	Bangalore	Karnataka	17226	7.00
5.	Ahmedabad	Gujrat	11505	5.00
6.	Other Regional Offices	Other States	82776	32.00
Total (Includes RBI's NRI Schemes)			**256088**	**100.00**

Source: Same as Table No. 3

7. SWOT ANALYSIS

STRENGTHS	WEAKNESS
1. Third largest reservoir of skilled manpower in the world. 2. Large and rapidly growing consumer market. 3. Democratic government with independent judiciary. 4. Vibrant capital market consisting of 23 stock exchanges with oven 9400 listed companies. 5. Congenial foreign investment freedom of entry, investment, location, choice of technology, import and export.	1. Bureaucratic controls. 2. Complicated Procedure. 3. Infrastructural Bottlenecks. 4. Out molded Labour Laws. 5. State Obstacles. 6. Legal Delays. 7. Domestic Policy Constraints 8. Corruption 9. Non- availability of technically trained human resources. 10. High Fiscal Deficits.
OPPORTUNITIES	**THREATS**
1. The entire gamut of exploration production, refining, distribution and retail marketing. 2. The government is encouraging the establishment of world- class integrated textile complex and processing units. FDI is welcome in these areas. 3. The IT industry and IT enabled services, which are rapidly growing offer opportunities for FDI.	1. Out flows of Capital. 2. Less Possibility Public Revenue. 3. Monopoly of MNCs. 4. Interferes in the National Policies and Politics. 5. Uncertainty in Stock Exchange. 6. Existence Regional Disparities. 7. Depreciation of National Currency. 8. Unfavorable Effect on the Balance of Payments.

4. Up gradation and modernization of airports will require US $ 35 billion investment in the next ten years. 5. India has emerged as an important venue for the service sector including financial accounting, call centers and business process out sourcing. There is considerable potential for growth in these areas.	

8. SUGGESTIONS:

The inflows of FDI to India are slowly increasing. However, the small share of India in world FDI inflows is a matter of concern. The following suggestions may relevant in this regard.

1. The Government of India should internationally improve its image by adopting attractive FDI policies and should improve managerial skill, Cost of Skilled labour, their availability and degree of entrepreneurship etc.
2. India should make such a policy that mobilize FDI in different sectors as a channel of Investment in Industries and ensure the profits.
3. The Foreign Investment Promotion Board (FIPB) should be vested with grater authority to give initial level approvals.
4. The Government should develop and provide such a infrastructure facilities which has equal standard with developed countries infrastructure.

9. CONCLUSION :

FDI is important for India because it is an important economic growth driver and has the potential to transfer knowledge and technologies, create jobs and eradicate poverty through economic development of different regions. However, there are many hurdles in the way of FDI inflows. The government, therefore, should develop fast track clearance system, change the mind set of bureaucracy and create conducive atmosphere through the development of basic infrastructure. If this is done on priority basis then the FDI definitely will play a dominant role in the economic development of our country.

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