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FDI AND ITS IMPACT ON DEVELOPING ECONOMY

(An empirical study with respect to India)

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Abstract :- *A country's economic growth depends on the policies adapted by its government to facilitate investment, mainly in economic and industrial sector. FDI has become a key to national development strategies for almost all the countries in the world. FDI is defined as investment made to acquire lasting interest in enterprise operating outside the country of the investor.*

FDI has played its role in rapid economic growth of Southeast Asian countries. India has embarked on ambitious plan to emulate the success of her neighbors to east and is trying to sell herself as a safe and profitable destination for FDI. As a result the Indian government over the years has brought many drastic changes in the rules and regulations to improve the climate for foreign investment in India. The FDI inflow are becoming more and more vital for accelerating the desired degree of growth and development of different industrial sectors. The FDI equity inflows in March 2016 went up by 16.5 per cent to $2.46 billion, according to data released by the Department of Industrial Policy and Promotion (DIPP). Of the FDI inflows (equity) in FY'16, services sector (including financial, banking, insurance, non-financial / business, outsourcing, R&D, courier, technology testing and analysis) attracted maximum investments of $6.88 billion followed by computer hardware and software ($5.90 billion), trading business ($3.84 billion) and automobile industry ($2.52 billion).

The paper studied the level of FDI in different sectors of Indian economy, its growth rate and its relevance with economic growth.

Keywords: *FDI, GDP, Inflation, Sustainable development*

FDI AND ITS IMPACT ON DEVELOPING ECONOMY
(An empirical study with respect to India)

A country's economic growth depends on the policies adapted by its government to facilitate investment, mainly in economic and industrial sector. FDI has become a key to national development strategies for almost all the countries in the world. FDI is defined as investment made to acquire lasting interest in enterprise operating outside the country of the investor.

FDI has played its role in rapid economic growth of Southeast Asian countries. India has embarked on ambitious plan to emulate the success of her neighbors to east and is trying to sell herself as a safe and profitable destination for FDI. As a result the Indian government over the years has brought many drastic changes in the rules and regulations to improve the climate for foreign investment in India. The FDI inflow are becoming more and more vital for accelerating the desired degree of growth and development of different industrial sectors. The FDI equity inflows in March 2016 went up by 16.5 per cent to $2.46 billion, according to data released by the Department of Industrial Policy and Promotion (DIPP). Of the FDI inflows (equity) in FY'16, services sector (including financial, banking, insurance, non-financial / business, outsourcing, R&D, courier, technology testing and analysis) attracted maximum investments of $6.88 billion followed by computer hardware and software ($5.90 billion), trading business ($3.84 billion) and automobile industry ($2.52 billion).

Definition of 'Foreign Direct Investment - FDI'

An investment made by a company or entity based in one country, into a company or entity based in another country. Foreign direct investments differ substantially from indirect investments such as portfolio flows, wherein overseas institutions invest in equities listed on a nation's stock exchange. Entities making direct investments typically have a significant degree of influence and control over the company into which the investment is made. Open economies with skilled workforces and good growth prospects tend to attract larger amounts of foreign direct investment than closed, highly regulated economies.

According to the International Monetary Fund, foreign direct investment, commonly known as FDI, "... refers to an investment made to acquire lasting or long-term interest in enterprises operating outside of the economy of the investor." The investment is direct because the investor, which could be a foreign person, company or group of entities, is seeking to control, manage, or have significant influence over the foreign enterprise.

India is an attractive destination for foreign investors. Its huge market provides them with ample opportunities for investment. The foreigners can invest in our country in two ways either through portfolio investment or through direct investment

An Indian company may receive ForeignDirect Investment under the two routes as given under:

Automatic Route: FDI in sectors /activities to the extentpermitted 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 underthe 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 and its Relevance:

The party making the investment is usually known as the parent enterprise, and the party invested in can be referred to as the foreign affiliate. Together, these enterprises form what is known as a Transnational Corporation (TNC), and here are some of the advantages of such an arrangement.

- Many countries still have several import tariffs in place, so reaching these countries through international trade is difficult. There are certain industries that require to be present in international markets in order to succeed, and they are the ones who then provide FDI to industries in such countries, so that they can increase their sales presence there.
- Many parent enterprises provide FDI because of the tax incentives that they get. Governments of certain countries invite FDI because they get additional expertise, technology and products. So to welcome these benefits they provide great tax incentives for foreign investors, which ultimately suit all parties.
- Foreign investment reduces the disparity that exists between costs and revenues, especially when they are calculated in different currencies. By controlling an enterprise in a foreign country, a company is ensuring that the costs of production are incurred in the same market where the goods will ultimately be sold.
- Different international markets have different tastes, different preferences and different requirements. By investing in a company in such a country, an enterprise ensures that its business practices and products match the needs of the market in that country specifically.
- Though this is not such a big factor, some markets prefer locally produced goods due to a strong sense of patriotism and nationalism, making it very hard for international enterprises to penetrate such a market. FDI helps enterprises enter such markets and gain a foothold there.

From the foreign affiliate's point of view, FDI is beneficial because they get advanced resources and additional capital at their disposal. Something like this is always welcome, and it also helps strengthen the political relationships between various nations

Objectives of the study:

The research is conducted to achieve the following objectives-

- To study the current scenario of FDI in India
- To study the sector wise analysis of FDI in India.

Review of Literature:

Roy and Berg (2006), analysed in their study whether FDI inflow have a contribution on the growth of the U.S. economy in their study covering the period of 1970-2001. In order to define two-way relation between FDI and economic growth, they used time-series data and simultaneous equation model. As a result, they saw that FDIs have a positive and significant effect on the growth of the U.S. economy.

Hooda (2011) through her study of FDI and Indian economy concluded that her results obtained from the Economic Growth Model and Foreign Direct Investment Model show that FDI enhances the financial position of India by providing a sound base for economic growth and development of the country. FDI not only contributes to the GDP but also to the foreign exchange reserves of the country.

In contrast to this, Rizvi and Nishat (2009) concluded their study of the impact of FDI on employment opportunities in India, China and Pakistan, by stating that it would not suffice to expect FDI to create a direct impact on employment opportunities in the above mentioned countries. They also suggest that in addition to FDI enhancement policies, other measures to boost employment growth should be generated.

Dr. Jasbir Singh,Ms. Sumita Chadha, 2012 concluded that maximum global foreign investment's flows are attracted by the developed countries rather than developing and under developing countries. Foreign investment flows are supplementing the scare domestic investments in developing countries particularly in India. Further this paper recommends that we should welcome the inflow of foreign investment because it enable us to achieve our cherished goal like making favorable the balance of payment, rapid economic development, removal of poverty, and internal personal disparity in the development and also it is very much convenient and favorable for Indian economy.

FDI in India: Past and Present Scenario

CUMULATIVE FDI FLOWS INTO INDIA (2000-2016):

TABLE 1--- TOTAL FDI INFLOWS (from April, 2000 to September, 2016):

1.	**CUMULATIVE AMOUNT OF FDI INFLOWS (Equity + 'Re-invested earnings' +'Other capital')**	-	**US$ 453,183 Million**
2.	**CUMULATIVE AMOUNT OF FDI EQUITY INFLOWS (excluding,** amount remittedthrough RBI'sNRI Schemes)	**Rs. 1,640,000 Crore**	**US$ 310,137 Million**

Source: FDI Statistics, Department of Industrial Policy& Promotion, Ministry of Commerce & Industry, Government of India, 2016.

Table 1 shows the amount of FDI inflows from April, 2000 to June, 2016. It shows the cumulative amount of FDI Inflows both in terms of Crore and in US $ million.

There is sum of equity inflows, reinvested earnings and other capital. Cumulative amount of inflows of 453,183 in US $ million. Other than this, cumulative FDI equity inflows which excludes amount remitted through RBI's -NRI schemes are 1,640,000 in Crore and 310,137 in US $ million

TABLE 2--- FDI INFLOW FOR THE F.Y. 2015-16

TOTAL AMOUNT OF FDI INFLOWS (Equity + 'Re-invested earnings' +'Other capital')		**US$2,292 Million**
FDI EQUITY INFLOWS	**Rs 13,115 Crores**	**US$ 2,054 Million**

Source: FDI Statistics, Department of Industrial Policy& Promotion, Ministry of Commerce & Industry, Government of India, 2016

Table 2 shows the amount of FDI inflows during the Financial Year, 2015-16. It shows the total amount of FDI Inflows both in terms of Crore and in US $ million.Point 1 shows the sum of equity inflows, reinvested earnings and other capital. Total amount of inflows are 2,929 in US $ million. Point 2 shows the FDI equity inflows amounted 13,115 in Crore and 2,054 in US $ million

TABLE 3--- FINANCIAL YEAR-WISE FDI INFLOWS DATA

S. Nos	*Financial Year (April – March)*	*Amount of FDI Inflows*		*%age growth over previous year*
FINANCIAL	**YEARS 2000-01 to 2014-15 (up to January, 2015)**	*In Rs crores*	*In US$ million*	*(in terms of US $)*
1.	**2000-01**	10,733	**2,463**	**-**
2.	**2001-02**	18,654	**4,065**	**(+) 65 %**
3.	**2002-03**	12,871	**2,705**	**(-) 33 %**
4.	**2003-04**	10,064	**2,188**	**(-) 19 %**
5.	**2004-05**	14,653	**3,219**	**(+) 47 %**
6.	**2005-06**	24,584	**5,540**	**(+) 72 %**
7.	**2006-07**	56,390	**12,492**	**(+)125 %**
8.	**2007-08**	98,642	**24,575**	**(+) 97 %**
9.	**2008-09**	142,829	**31,396**	**(+) 28 %**
10.	**2009-10**	123,120	**25,834**	**(-) 18 %**
11.	**2010-11**	97,320	**21,383**	**(-) 17 %**
12.	**2011-12**	165,146	**35,121**	**(+) 64 %**
13.	**2012-13**	121,907	**22,423**	**(-) 36 %**
14.	**2013-14**	147,518	**24,299**	**(+) 8%**
15.	**2014-15 (Apr – Jan., 2015)**	**155,489**	**25,526**	**(+) 27%**
16.	**2015-2016**	**262,322**	**40,001**	**(+) 29%**
17.	**2016-17**	**144,674**	**21,624**	
Cumulative total (from April, 2000 to September, 2016)		**1,640,533**	**310,258**	**-**

Source: FDI Statistics, Department of Industrial Policy& Promotion, Ministry of Commerce & Industry, Government of India, 2016

The above Table No. 3 shows the total amount of FDI inflows in India during the last 16 years i.e. 2000 to 2016. The FDI inflow from 2000-2001 i.e. 10,733 Crore Rs. in 2001-02 it was 18,654 Crore rupees.

It shows the Good result in the FDI inflows in India. Little bit ups and downs in FDI inflows up to 2005-06, but after that great hike in the year 2007-08 i.e. 98,642crore rupees as compare to earlier years.

In 2008-2009 there was a huge investment in FDI in 142,829 Crore Rupees and so on. But again there were some fluctuations in inflow of FDI in the years between 2010-2014,soon giving the highest figures in last 16 years 262,322 Rupees FDI in 2015-2016 So we can say that the foreign investment have been on rise in India. Currently the inflow of FDI from April, 2016 to September, 2016 figures 144,674 Rs. In last five years from 2012-2016 , there is consistent growth in the flow of FDI in India.

TABLE 4--SHARE OF TOP INVESTING COUNTRIES FDI EQUITY INFLOWS *(Financial years):*

Amount Rupees in Crores (US$ in Million)

Ranks	*Country*	*2014-15 (April – March)*	*2015-16 (April – March)*	*2016-17 (April,16 – September, 16)*	*Cumulative Inflows (April '00 - September '16)*	*%age to total Inflows (in terms of US $)*
1.	**MAURITIUS**	**55,172 (9,030)**	**54,706 (8,355)**	**39,136 (5,850)**	**519,500 (101,760)**	**33 %**
2.	**SINGAPORE**	**41,350 (6,742)**	**89,510 (13,692)**	**31,282 (4,680)**	**287,949 (50,560)**	**16 %**
3.	**U.K.**	**8,769 (1,447)**	**5,938 (898)**	**6,436 (964)**	**122,028 (24,072)**	**8 %**
4.	**JAPAN**	**12,752 (2,084)**	**17,275 (2,614)**	**18,745 (2,795)**	**129,416 (23,760)**	**8%**
5.	**U.S.A.**	**11,150 (1,824)**	**27,695 (4,192)**	**9,618 (1,437)**	**104,193 (19,380)**	**6 %**
6.	**NETHERLANDS**	**20,960 (3,436)**	**17,275 (2,643)**	**10,795 (1,615)**	**105,328 (18,929)**	**6 %**
7.	**GERMANY**	**6,904 (1,125)**	**6,361 (986)**	**3,936 (588)**	**48,806 (9,217)**	**3 %**
8.	**CYPRUS**	**3,634 (598)**	**3,317 (508)**	**2,546 (381)**	**45,227 (8,933)**	**3 %**
9	**FRANCE**	**3,881 (635)**	**3,937 (598)**	**1,225 (183)**	**27,750 (5,294)**	**2 %**
10.	**UAE**	**2,251 (367)**	**6,528 (985)**	**2,375 (355)**	**24,024 (4,385)**	**1 %**
TOTAL FDI INFLOWS FROM ALL COUNTRIES *		**189,107 (30,931)**	**262,322 (40,001)**	**144,674 (21,624)**	**1,640,533 (310,258)**	**-**

Source:FDI Statistics, Department of Industrial Policy& Promotion, Ministry of Commerce & Industry, Government of India,2016

The above Table No.4 depicts the country having the highest FDI in India. The report shows that the MAURITIUS country has the highest foreign investor in India with 33%. After Mauritius, Singapore and U.K and Japan invest the highest FDI in India with 16% and 8% respectively. USA also gets 5th position with 6% FDI in India.

The largest inflows of FDI's over the period of April 2000 to June 2016 have been received from Mauritius, its share in these inflows have being as high as 33% to 35%. Singapore is second with a share of 14% to 16%. The other major sources of foreign direct investment are from UK, Japan, Netherlands, U.S.A., Cyprus, Germany, France, Switzerland and their respective share of inflow of FDI are 8%, 6%, 6%, 3%, 3%, 2%, and 1`% respectively.

The inflows from U.S.A are routed through Mauritius due to tax advantage. The tax advantage emanates from the double tax avoidance agreement that India has with that country USA. This agreement means that any foreign investor has the option of paying tax either in India or in Mauritius.

The tax rates in Mauritius are amongst the lowest in the world. The other big investors included Singapore, the US, Britain and the Netherlands. While investors get higher returns on their money in India, those from Mauritius "get even higher returns on their capital as we have a double taxation avoidance treaty (DTAT) (with the island nation)," Crisil principal economist, Mr. D.K. Joshi.

There have been changes in the source countries due to the change of policies in 1991. Prior to 1991, India depended on a few developed western countries for capital. These included countries like Israel, Australia, South Korea, Malaysia; Singapore etc. after the policies have been implemented countries which did not had any share in India's FDI such as Thailand, Saudi Arabia and South Africa etc.

TABLE 5-- SECTORS ATTRACTING HIGHEST FDI EQUITY INFLOWS

Amount in Rs. Crores (US$ in Million)

Ranks	*Sector*	*2014-15 (April-March)*	*2015-16 (April – March)*	*2016-17 (April,16 – September, 16)*	*Cumulative Inflows (April '00 - September '16)*	*% age to total Inflows (In terms of US$)*
1.	**SERVICES SECTOR ****	27,369 **(4,443)**	45,415 **(6,889)**	35,368 (5,288)	293,722 **(56,080)**	**18 %**
2.	**CONSTRUCTION DEVELOPMENT: TOWNSHIPS, HOUSING, BUILT-UP INFRASTRUCTURE**	4,652 **(769)**	727 **(113)**	414 **(62)**	114,350 **(24,250)**	**8 %**
3.	**COMPUTER SOFTWARE & HARDWARE**	14,162 **(2,296)**	38,351 **(5,904)**	6,903 (1,032)	119,087 **(22,050)**	**7 %**
4.	**TELECOMMUNICATIONS** (radio paging, cellular mobile, basic telephone services)	17,372 **(2,895)**	8,637 **(1,324)**	18,659 (2,787)	111,388 **(21,169)**	**7 %**

5.	**AUTOMOBILE INDUSTRY**	16,760 **(2,726)**	16,437 **(2,527)**	4,865 (729)	86,259 **(15,793)**	**5 %**
6.	**DRUGS & PHARMACEUTICALS**	9,052 **(1,498)**	4,975 **(754)**	4,270 (641)	74,367 **(14,490)**	**5 %**
7.	**TRADING**	16,755 **(2,728)**	25,244 **(3,845)**	9,936 (1,482)	78,772 **(13,354)**	**4 %**
8.	**CHEMICALS (OTHER THAN FERTILIZERS)**	4,658 **(763)**	9,664 **(1,470)**	3,561 (532)	63,116 **(12,433)**	**4 %**
9.	**POWER**	4,296 **(707)**	5,662 **(869)**	3,744 (559)	56,357 **(11,035)**	**4 %**
10	**HOTEL & TOURISM**	4,740 **(777)**	8,761 **(1,333)**	3,497 (523)	53,207 **(9,750)**	**3 %**

Source:FDI Statistics, Department of Industrial Policy& Promotion, Ministry of Commerce & Industry, Government of India, 2016.

The above Table No.5 depicts the sector having the highest FDI equity inflow in India. The report shows that Service sector has the highest FDI Equity inflow 18% around 293,722million ***US$,*** followed by Construction development, Computer Software and Hardware, Telecommunication, Automobile Industry sector having 8%, 7%, 7%, and 5% respectively.

Other sectors like Drugs and Pharmaceuticals carries 5% and Chemicals, Power, Trading Industries carries 4% FDI inflow each , whereas the least is of Hotel and tourism industries with 3% of the total FDI inflow in India.

The Sectoral composition of FDI over the period of April 2000 to June 2015, we can find that the largest recipient of such investment is service sector (Financial and non-financial services). The share of this sector in cumulative FDI flows is 27 % of the inflow total foreign direct investment.

The foreign investors are interested in mainly financial services due its profit generating advantage. This sector gives scope for the foreign investor to takes back the profits to the home country. As service sector the services are consumed in the host country and there by generating outflow of funds from the host country.

The second recipient is Construction Development sector which shares 14% of total FDI. Telecommunication, Computer software and hardware, Drugs and pharmaceuticals, Automobile industry, Chemical (Other than Fertilizers),Power, Metallurgical industries, Hotel and tourism contribute 11%,11%,8%,8%,7%,6%,6%2% respectively.

The major drawback regarding global flows are – the increase in the relative share of developing countries as both destination and sources and flow to the service sectors besides manufacturing which is more demanded.

There are Sectoral limits or caps designed by the RBI to limit the foreign direct investments. 100% investment has been allowed to the following sectors- private sector banking, NBFC'S, petroleum, housing and Real estate, Hotel and tourism, road and highways, ports and harbors, advertising, films, mass rapid transportation, power, drug and pharmaceuticals, pollutions control and management and special economic zones. Other sectors such as airports are allowed with 74% caps and telecommunication with 49% and insurance with 26%.

Conclusion

FDI has a significant role in the economic development of India. The inflow of FDI in service sectors and construction and development sector, from April, 2000 to June, 2015 attained substantial sustained economic growth and development through creation of jobs in India but still the demanding manufacturing sector where there is maximum possibilities of job creations, is waiting for the sustainable level of investment through FDI.

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