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HYPOTHESIS (ES)

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RESULTS & DISCUSSION

FINDINGS

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- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

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- Garg, Bhavet (2011): Towards a New Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

FOREIGN DIRECT INVESTMENT IN INDIA; TRENDS AND POLICY: APRIL, 2000 TO MARCH, 2015

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ABSTRACT

Foreign Direct investment plays a crucial role in the development of the nation and growth of economy. Domestically available capital is inadequate for the purpose of overall development of the country. Foreign capital is seen as a way of filling in gaps between domestic savings and investment. The present study has focused on the trends of FDI Flow in India during 2000-15 (up to March, 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 March 2015.This paper also discuss about the major policy changes done recently and launch of The Make in India programme to boost FDI. The study based on Secondary data The study concludes that Mauritius emerged as the most dominant source of FDI contributing because of the Double Taxation Avoidance Agreement and service sector is a recipient of major FDI inflow.

KEYWORDS

Foreign direct investment (FDI), Foreign capital inflow, Sectors, Investment, Countries inflow trend.

1. INTRODUCTION

A country's economic growth much depends upon its capital formation. Domestic investments adds to the capital stock in an economy while foreign direct investment plays a complementary role in overall capital formation. Need of FDI depends on saving and investment rate in any country. FDI is an investment from one country into another country/countries (mainly privately owned enterprises rather than governments) that involves establishing operations or acquiring tangible assets, including stakes in other businesses. Purchase or establishments of income-generating assets in a foreign country that entails the control of operation or organisation. It is not just transfer of ownership as it usually involves the transfer of factors complementary to capital, including management, technology and organisational skills.

India has already marked itself as one of the fastest growing economies of the world. It has been ranked among the top 3 attractive destinations for inbound investments. In 2015, UNCTAD survey(based on responses 159 companies) projected India as third most attractive FDI destination after China and United states for transnational corporation during 2013-2015. Trade and foreign direct investment policy was not in the top of the agenda in India's development strategy until the early eighties. However , since 1991(year of economic liberalization in India), the regulatory environment in terms of foreign investment has been consistently eased to make it investor friendly.

2. OBJECTIVE

- To study and analyses trends of FDI flow in India during 2000-01 to 2014-15.
- To analyze country wise FDI trends.
- To analyze sector wise FDI trends
- To study FDI policy & Make in India programme

3. FDI POLICY

FDI in India can be done through two routes-

- Automatic Route: No prior approval of either government or the Reserve of bank of India (in all sectors/activities as specified in the FDI policy, issued by the Government of India from time to time) is required.
- Government Route: Activities which are not covered under automatic route requires prior approval of government which also considered by the Foreign Investment Promotion Board (FIPB), Dept. of economic affairs, Ministry of finance.

Foreign investor can be

- Individual: FVCI, Pension/Provident fund, Financial Institution.
- Company: Foreign trust, Sovereign wealth funds, NRIs/PIOs.
- Foreign institutional investors: Private equity funds, Partnership/ Proprietorship firms, others.

(Citizen or entity from Pakistan cannot invest in defence, space, atomic energy and sectors prohibited for foreign investment. Also citizen/entity from Pakistan and Bangladesh can only invest under the government route.)

In order to give a push to the slow moving economy, government has introduced a major policy reform.

Recent policy measures in FDI are:

- FDI in commodity, stock exchanges and depositories, petroleum refining by PSUs, power exchanges, courier services which were under government route has now been brought under the automatic route.
- Removal of restriction in tree plantation sector.
- 100% FDI is allowed in medical devices, telecom sector and in single brand retailing, asset reconstruction companies.
- Construction, operation and maintenance of specified activities of Railway sector opened to 100% FDI under automatic route.
- FDI cap increased in insurance & sub activities from 26% to 49%.
- FDI limit in defence sector raised from 26% to 49% under government approval route.
- Foreign Portfolio Investment raised to 24% under automatic route.
- FDI beyond 49% is also allowed on a case to case basis with the approval of Cabinet Committee on Security.

These policy measure aims giving greater flexibility to Indian companies to seek foreign investments, the composite foreign investment cap policy move is taken to attract larger foreign investments as they eliminate ambiguity on application of sectoral foreign investment caps, though in some cases this will result in FIIs getting greater play immediately. However, a government approval would be required if there is a transfer of ownership or control of Indian companies from resident Indian citizens to non-resident entities. Currently, in investment data, only FDI is taken into account and not FII/FPI.

3.1. MAKE IN INDIA

Make in India is an initiative by Government of India and is launched by Prime Minister Narendra Modi on 25 September 2014, to encourage companies to manufacture their products in India and transform India into a global manufacturing hub. The initiative hopes to attract capital and technological investment in India. The major objective behind the initiative is to focus on 25 thrust sectors of the economy for job creation and skill enhancement where India can become world leader. These sectors include automobiles, chemical, IT, pharma , textiles, ports, aviation, leather, tourism and hospitality, wellness, railways, auto

component, design manufacturing, renewable energy, mining, bio-technology and electronics. 100%FDI is allowed in all these sector except Space (74%), Defence (49%) and News Media (26%).

RESPONSE OF MAKE IN INDIA

- ✓ Memorandum of understanding signed between Spice Group and the Government of Uttar Pradesh. Spice group said it would start a mob9ile manufacturing unit in Uttar Pradesh with an investment of 500 crore.
- ✓ HyunChil Hong, The President & CEO of Samsung South west Asia announced, with Kalraj Mishra, Union Minister for Micro, Small and Medium Enterprises, to discuss a joint initiative under which 10"MSME-Samsung Technical Schools" will be established in India. Samsung also announced to manufacture the Samsung Z1 in its plant in Noida.
- ✓ Hitachi announced to increase its employees in India from 10000 to 13000 and would also try to increase its revenues from India. It also announced to setup an auto-component plant in Chennai in 2016.
- ✓ In February 2015, Huawei opened a new research and development (R&D) campus in Bengaluru by investing US$170 million.
- ✓ Also in February, Marine Products Export Development Authority said that it was interested in supplying shrimp eggs to shrimp farmers in India under the initiative.
- ✓ iPhone manufacturer Foxconn in talks with sub to build first Apple plant in India. However, Foxconn had yet to make firm commitment.
- ✓ Ford working on plans to ship India-made EcoSport to US, request for quotation put out by Ford is for as many as 90000 units a year which is more than a number of vehicles it sell in India etc

As a result FDI inflow in India has moved suddenly by 56% in five months since the Make in India has launched. Manufacturing sector alone accounts jump of 45% at $6.9 billion from $4.8 billion in a corresponding period a year ago. India during five-month period received $21.2 billion inflows overall.

4. SECTOR WISE TRENDS OF FDI

TABLE 1: SECTOR-WISE FOREIGN DIRECT INVESTMENT INFLOWS INTO INDIA-1991 TO 2015 (US $million)

Sectors	FDI inflow 1991-1999	Sectors	FDI inflow 2000-2015 (till march)
Electrical equipment	1393.13	Service Sector	42712.67
Service sector	1213.66	Construction development: Townships ,Housing, Built-up infrastructure & Construction- Development Projects	24064.13
Telecommunications	1211.64	Telecommunications	17058.03
Chemical other than fertilizers	1196.17	Computer Software & Hardware	15017.32
Power	1093.32	Drugs & Pharmaceuticals	13120.87
Food processing industries	710.51	Automobile industry	12382.49
Paper & Pulp	259.85	Chemicals (Other than Fertilizers)	10336.98
Mechanical & engineering industry	255.41	Power	9557.33
Textiles (including dyed& printing)	248.88	Miscellaneous Industries	9242.95
Drug & Pharmaceuticals	246.71	Metallurgical Industries	8546.73
Trading	201.48	Trading	8060.37
Metallurgical industry	255.41	Hotel & Tourism	7916.40
Industrial machinery	108.88	Petroleum & Natural Gas	6569.13
Hotel & Tourism	91.33	Food Processing Industries	6310.67
Ceramics	51.6	Mechanical & engineering industries	3978.22
Cement & gypsum product	49.92	Information & Broadcasting (including print media)	3969.36
Fermentation industry	24.15	Electrical equipments	3874.91
Consultancy services	6.61	Industrial machinery	3631.58
Computer Software & Hardware	0	Non- Conventional energy	3616.79
Housing & real estate	0	Construction (infrastructure) activities	3434.39
Construction activities	0	Cement & gypsum products	3089.33
Automobiles industry	0	Hospital & diagnostic centre	2945.12
Petroleum & natural gas	0	Consultancy services	2809.33
Information Broadcasting	0	Fermentation industries	2192.28
others	2401.36	Rubber goods	1757.62
		Agriculture services	1757.58
		Mining	1669.65
		Ports	1637.30
		Textiles (including dyed,	1587.83

		printed)	
		Sea transport	1545.87
		Electronics	1429.77
		Prime mover (other than electrical generator)	1290.97
		Education	1089.73
		Medical & surgical appliances	932.45
		Paper & Pulp (including paper products)	920.29
		Soaps, cosmetics & toilet preparations	916.37
		Machine tools	716.16
		Ceramics	705.26
		Diamond, gold ornaments	696.48
		Railway related components	636.99
		Air transport (including air freight)	569.80
		Vegetable oils & vanaspati	550.30
		Fertilizers	543.25
		Glass	461.19
		Printing of book (including litho printing industry)	448.63
		Agricultural machinery	417.83
		Commercial, office & household equipments	309.34
		Retail trading(single brand)	275.38
		Earth-moving machinery	234.85
		Scientific instrument	172.34
		Leather, leather goods & pickers	150.07
		Tea & coffee(processing & warehousing coffee & rubber)	108.50
		Timber products	105.74
		Sugar	81.29
		Dye-stuffs	74.38
		Industrial instruments	67.91
		Photographic raw film & paper	67.29
		Boilers & steam generating plants	63.33
		Glue 7 gelatin	37.88
		Coal production	27.73
		Mathematical, surveying & drawing instruments	7.98
		Defence industries	5.02
		Coir	4.07
Total	10954.66	Total	248511.80

Source: Reserve bank of India (fact sheet of FDI)

On the basis of sectoral analysis, FDI is mainly flowed from service sector including financial and non financial services, information technology, telecommunication, hotel and tourism, pharmaceutical & drugs.

Since 1991, after liberalization , service sector has remained main sector attracting FDI. Service sector received FDI inflows of US$ 42712.67 million during period 2000-2015. This sector has tremendous growth potential and is among the main drivers of sustained economic growth and development by contributing significant share in GDP. Mauritius is the top nation to invest in service sector.

FDI in telecommunication sector is rising at astonishing pace. It has also remained one of the top 10 sector to attract foreign direct investment since 1991. Two main reason behind the huge FDI inflow in this sector are private sector participation and growing demand in India. The government of India is also showing increasingly participation in ensuring pro-active and positive policies to boost FDI to this sector. It added US$17058.03 million in 2000-15 .

Computer hardware& software was constitute under head 'electrical' till 2003. It has been taken as a separate industry since the year 2004. It accounted US $ 15017.32 million in year 2000-15. This sector enjoys 100% FDI permission under automatic route.

The Indian Pharmaceutical industry has been experiencing a vast inflow of FDI because of the various functions such as contract research and manufacturing, clinical research, research & development pertaining to vaccines. Multinational Pharmaceutical Corporation outsources these activities and helps the growth of the sector. It accounts for US$ 13120.87 million share in FDI inflow in year 2000-2015.

The FDI in Automobile has experienced huge growth since 2000 and adds to US$ 12382.49 million in FDI share. Advantages that India has in this sector are advanced technology, cost effectiveness, efficient manpower and most importantly growing demand to the automobile.

Construction is another leading sector attracting FDI inflow and has ranked 2nd in year 2000-15 by contributing US$ 25064.13 million in FDI share. It includes housing, commercial premises, hotels, resort hospitals, educational institutions, recreational facilities and city & regional level infrastructure. FDI to this sector is 100% permissible under automatic route.

The huge size of market and high return on investment has managed to boost FDI inflow in power sector since 1991. In year 2000-15 it accounted US$ million FDI inflow. 100 % FDI is allowed under automatic route in almost all kind of power generation except atomic energy.

Other than above mentioned sector FDI is also coming from other sectors including chemicals, metallurgical industries, hotel and tourism, trading, petroleum and natural gases, consultancy services, fermentation, electrical equipment and others. The value of total FDI in year 2000-15(till March) is US$ 248511.80 million which is way better than that of year 1991-1999.

5. COUNTRY WISE TRENDS OF FDI

Table 2: STATEMENT ON COUNTRY-WISE FDI EQUITY INFLOWS (In US$ million)

College	FDI inflow 1991-1999	Countries	FDI inflow 2000-2015 (till march)
USA	7212.96	Mauritius	87554.99
Mauritius	3466.87	Singapore	32187.73
UK	2495.20	United kingdom	22210.30
South Korea	1513.37		
Japan	1422.40	Japan	18352.28
Germany	1234.2	Netherlands	14671.10
Australia	1023.78	U.S.A	13751.06
Malaysia	868.44	Cyprus	8044.02
France	786.42	Germany	7643.58
Netherland	733.28	France	4513.00
Other countries	5701.63		
		UAE	3044.75
		Switzerland	3044.55
		Spain	2052.95
		Italy	1585.46
		South Korea	1551.94
		Hong Kong	1540.89
		Luxembourg	1245.15
		Sweden	1092.15
		Caymen island	1074.25
		Russia	1054.09
		China	897.06
		British Virginia	837.65
		Belgium	804.56
		Malaysia	734.31
		Australia	651.12
		Indonesia	622.97
		Poland	619.56
		Canada	528.08
		Denmark	414.54
		Oman	369.93
		Finland	346.55
		Ireland	330.00
		South Africa	289.62
		Austria	247.82
		Thailand	202.93
		Norway	181.28
		Chile	176.41
		Other countries	14043.2
Total	29213.86	Total	248,511.80

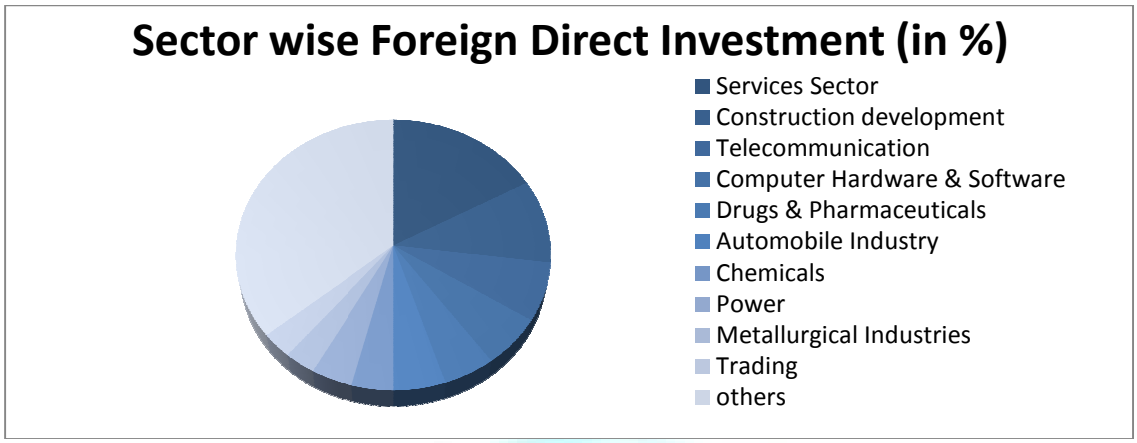
Source: Reserve bank of India (fact sheet of FDI),

If we look country wise trends of FDI, we finds that most of the FDI comes from Mauritius i.e. US$ 87554.95 million and has ranked 1st among the top ten country making investment in India. Mauritius alone contributes US$ 87554.95 million. 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 also and so Singapore is second largest Investor of FDI inflow in India. Singapore accounts for US$ 32187.73 million of FDI in India. Other major contributor of FDI are U.K, Japan, Netherlands, U.S.A, Cyprus, Germany, France, UAE, Switzerland, Spain, Italy, South Korea, Hong Kong, Luxembourg.

Other countries have very minimal share of FDI. To contrary USA was the major contributor to FDI in 1991-1999 followed by Mauritius, UK, south Korea, Japan, Germany, Australia, Malaysia, France , Netherlands. Singapore was not there in top ten has now ranked 2nd in 2000-2015.

6. FINDINGS

FIG. 1



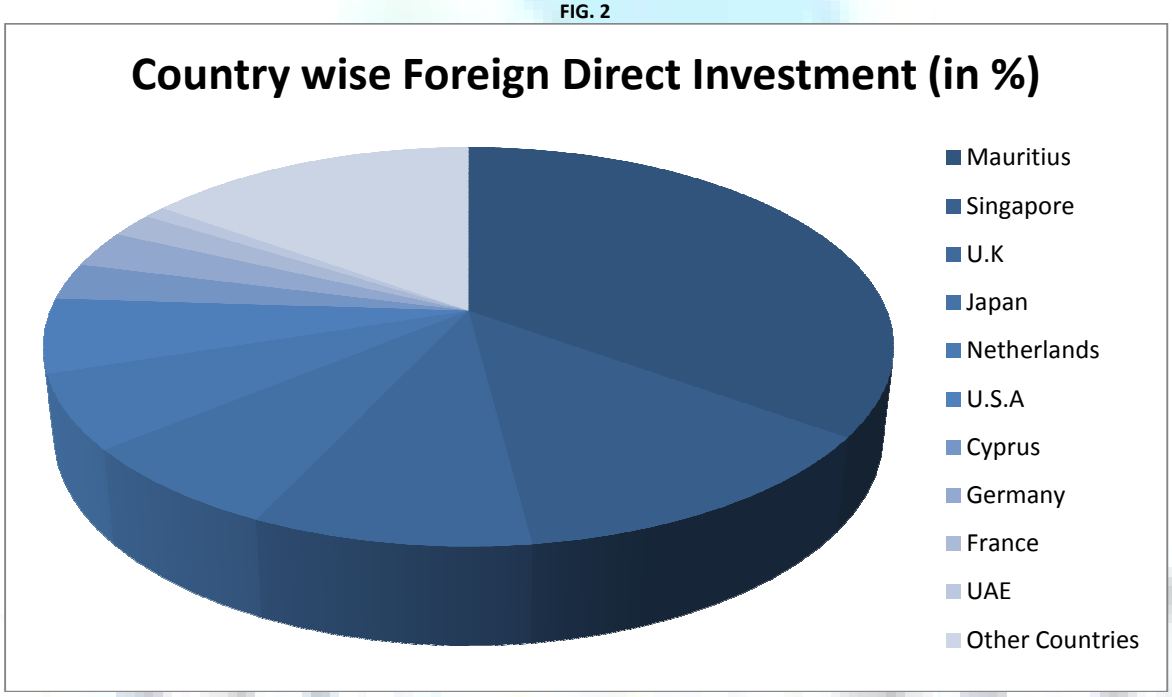
Note:

1. Services sector includes Financial, Banking, Insurance, Non-Financial / Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis
2. FDI Sectoral data has been revalidated / reconciled in line with the RBI, which reflects minor changes in the FDI figures (increase/decrease) as compared to the earlier published sectoral data.

Study of sectoral trend reveals that service sector has remained important FDI destination since 1991-1999 and has major share of 17% in total FDI. Second major sector is construction development (township, housing and built-up infrastructure) with the share of 10% in total FDI followed by Telecommunication with 7% share, Computer software & hardware with 6% share, Drug & Pharmaceutical with 5% share, Automobile Industry with 5% share, Chemicals with 4% share, Metallurgical industries with 4% and Trading with 3% share in FDI. These are the top 10 sectors attracting FDI. Other sectors constitute 36% of the overall FDI.

Sectors with restrictions are lottery business, gambling & betting, chit fund, Nidhi company(borrowing from & lending to members only), Trading in Transferable Development Rights, Real estate business(other than construction development) or construction of farm house, services like legal, book keeping, accounting & audit and activities and sector not open to private sector investment e.g. Atomic energy and Railway transport(other than construction , operation and maintenance of (a) high speed train project ,(b) dedicated fright lines, (c)railway electrification, (d) signaling system, (e) freight terminals, (f) passenger terminals, (g) mass rapid transport system, (h)infrastructure in industrial park pertaining to railway line/sidings including electrified railway lines and connectivities to main railway lines ,(i) sub-urban corridors projects through PPP and, (j) rolling stock including train sets, and locomotives/ coaches manufacturing and maintenance facilities.

FIG. 2



Note:

1. *Includes inflows under NRI Schemes of RBI.
2. %age worked out in US$ terms & FDI inflows received through FIPB/SIA+ RBI's Automatic Route + acquisition of existing shares only.

Country wise study of trends reveals 35% of total FDI inflow comes from Mauritius making it top the list of top ten major countries responsible for FDI inflow in India. Second most important country is Singapore with the 13% of the total investment followed by U.K with 9% share, Japan with 7%, Netherlands 6%, U.S.A with 6%, Cyprus, Germany both with 3%, France with 2%, UAE with 1% and remaining share of 15% FDI inflow come from other countries. 85% of total FDI inflow comes from these ten countries. More than half of the inflow comes from tax havens and offshore financial centres Mauritius, Singapore & U.K.

7. CONCLUSION

FDI has helped the Indian economy to grow and prosper. India emerges as the largest recipient of foreign direct investment across the world. Present study found that the total FDI inflow in India from April 2000- March 2015 is US $ 248511.80 million. Mauritius emerged as the most dominant source of FDI contributing US$ 87554.99 million, which is 35% share of the total FDI inflow in India from rest of the world. Similarly, service sector has emerged as the most important sector attracting FDI inflow followed by construction development, telecommunication, computer software & hardware, drugs & pharmaceutical and automobile industry. These six sectors contribute to 50% of the FDI inflow. Since India has high potential for growth, attracting foreign direct investment has

become an integral part of the economic development strategies for India. While there are signs of stabilisation in net FDI inflows. India still has a long way to go to return to pre-global financial crisis peak. In this light, Modi government has reiterated that the country's FDI regime is highly open and conducive for attracting such flows of foreign capital. Make in India is one the important programme in this regard, FDI inflow showed a sudden growth by 56% in five months since The Make in India has launched.

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