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A STUDY OF TRENDS AND CHALLENGES OF FDI FLOW IN INDIA

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INTRODUCTION : A foreign direct investment (FDI) is a controlling ownership in a business enterprise in one country by an entity based in another country.The Foreign Direct Investment means "cross border investment made by a resident in one economy in an enterprise in another economy, with the objective of establishing a lasting interest in the investee economy.

FDI is also described as "investment into the business of a country by a company in another country". Mostly the investment is into production by either buying a company in the target country or by expanding operations of an existing business in that country". Foreign direct investment (FDI) plays a complementary role in overallcapital formation by filling the gap between domestic savings and investment. Foreign direct investment (FDI) is a direct investment into production or business in a country by a company in another country, either by buying a company in the target country or by expanding operations of an existing business in that country.FDI brings better technology and management, marketing networks and offers competition, the latter helping Indian companies improve, quite apart from being good for consumers. Foreign technology induction can be encouraged through FDI and through foreign technology collaboration agreements. The sectors which have resources but do not have the required technology acquire foreign technology collaboration through RBI or Government approvals.

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

I). Automatic Route

FDI is allowed under the automatic route without prior approval either of the Government or the Reserve Bank of India in all activities/sectors as specified in the consolidated FDI Policy, issued by the Government of India from time to time.

II). Government Route

FDI in activities not covered under the 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 in sectors/activities to the extent permitted under automatic route does not require any prior approval either by the Government or RBI. FDI in activities not covered under the automatic route requires prior Government approval. Such proposals are considered by the Foreign Investment Promotion Board (FIPB).

SECTORS WHERE FDI IS PROHIBITED:

Lottery Business including Government /private lottery, online lotteries, etc.

Gambling and Betting including casinos etc.

Chit funds

Trading in Transferable Development Rights (TDRs)

Real Estate Business (other than construction development) or Construction of Farm Houses

Manufacturing of Cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes

Activities / sectors not open to private sector investment e.g. Atomic Energy and Railway Transport (other than construction, operation and maintenance of (I) Suburban corridor projects through PPP, (ii) High speed train projects, (iii) Dedicated freight lines, (iv) Rolling stock including train sets, and locomotives/coaches manufacturing and maintenance facilities, (v) Railway Electrification, (vi) Signalling systems, (vii) Freight terminals, (viii) Passenger terminals, (ix) Infrastructure in industrial park pertaining to railway line/sidings including electrified railway lines and connectivity's to main railway line and (x) Mass Rapid Transport Systems.)

Services like legal, book keeping, accounting & auditing.

OBJECTIVES OF THE STUDY

1. To Study the trends of FDI Flow in India during 2000-01 to 2014-15
2. To analyse the FDI flows as to identify country wise approvals of FDI inflows to India.
3. To analyse the Sector wise distribution of FDI inflows.
4. To study the challenges of FDI in India

SOURCES 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

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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 January 2015.

ANALYSIS OF THE STUDY

Table 1. Financial Years Wise FDI Flow From 2000-01 to 2014-15 (up to Jan, 2015)

Sr.No.	Year	Total FDI Inflow	% Growth
1	2000-01	4029	
2	2001-02	6130	+52
3	2002-03	5035	-18
4	2003-04	4322	-14
5	2004-05	6051	+40
6	2005-06	8961	+48
7	2006-07	22826	+146
8	2007-08	34843	+53
9	2008-09	41873	+20
10	2009-10	37745	-10
11	2010-11	34847	-08
12	2011-12	46556	+34
13	2012-13	34298	-26
14	2013-14	36046	+5
15	2014-15	37758	
Cumulative Total FDI inflow		361320	

Source: RBI's Bulletin March 2015

Table no 1 depicts that flows of FDI received in India during April 2000 to January 2015 i.e. 3613202 US$ million. From the year 2000 to 2002 FDI inflow in India has shown a increasing trend. This may be the result of Foreign Exchange Management Act (FEMA) which is introduced in 1999. Further it follow negative trend up to period 2003-2004. But from the year 2004-05 to 2008-09 investment into India once again start growing. The highest FDI inflows growth in the country in 2006-2007 year was 146%. Further, FDI inflows rose by 34 % to US$ 46,556 million during 2011-12. In April 2012-13 has shown negative growth rate i.e. -21% to US$ 36,860 million, but in 2013-14 it again shows a increasing trend of 5% due to Global Recoveries, while the cumulative amount of FDI equity inflows from April 2000 to January 2015 stood at US$ 361320billion,according to latest data released by RBI and the Department of Industrial Policy and Promotion (DIPP).

Table 2. Country -Wise FDI Inflows from April 2000 to January 2015

Sr.No.	Name of Country	Amount of FDI inflow (in US$ million)	% age with inflows
1	Mauritius	86187.26	35.45
2	Singapore	30707.07	12.63
3	United Kingdom	21911.36	9.01
4	Japan	17879.2	7.35
5	Netherlands	14371.36	5.91
6	U.S.A	13509.56	5.56
7	Cyprus	7958.69	3.27
8	Germany	7339.94	3.02
9	France	4470.64	1.84
10	UAE	3008.65	1.24
11	Switzerland	3000.41	1.23
12	Spain	2039.18	0.84
13	Italy	1563.07	0.64
14	South Korea	1526.99	0.63
15	Hong Kong	1509.86	0.62

Source: RBI's Bulletin March 2015

Table depicts the country wise FDI inflow in India during April 2000 -Jan 2015. The analysis Indicates that large part of FDI in India is contributed by fifteen countries which is. 2,16,983.24US $ million while remaining approx. 11 per cent by rest of the world. Mauritius emerged as the most dominant source of FDI contributing 86,187.26 US$ millions 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

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Singapore .So Singapore is second largest Investor of FDI inflow in India. The other major countries are U.K with a relative share 20,671.41 US$ million followed by Japan. While some countries like South Korea, Italy, Hong Kong has fewer shares in total FDI Inflow.

Table 3. Sector -Wise FDI Inflow from April, 2000 to January, 2015

Sr.No.	**Sectors**	**Amount of FDI Inflows (In US$ million)**	**%age with Total FDI Inflows**
1	Services Sector	42,101.98	17.32
2	Construction Development	24,028.19	9.88
3	Telecommunications	16,994.68	6.99
4	Computer Software & Hardwar	14,125.19	5.81
5	Drugs & Pharmaceuticals	12,856.02	5.29
6	Automobile Industry	11,857.11	4.88
7	Chemicals	10,229.69	4.21
8	Power	9,512.02	3.91
9	Metallurgical Industries	8,480.90	3.49
10	Hotel & Tourism	7,774.03	3.2
11	Trading	7,660.73	3.15
12	Petroleum & Natural Gas	6,519.53	2.68
13	Food Processing Industries	6,215.46	2.56
14	Mechanical & Engineering Industries	3,948.17	1.62
15	nformation & Broadcasting	3,890.94	1.6

Source: RBI's Bulletin March 2015

Table 3 show the FDI inflows in different sector for the period April 2000 to Jan 2015 data reveals that most of the foreign countries like to invest in service sector. Services sector includes Financial, Banking, Insurance, Non-Financial / Business etc. Share of Service sector in total FDI is 17.32 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.

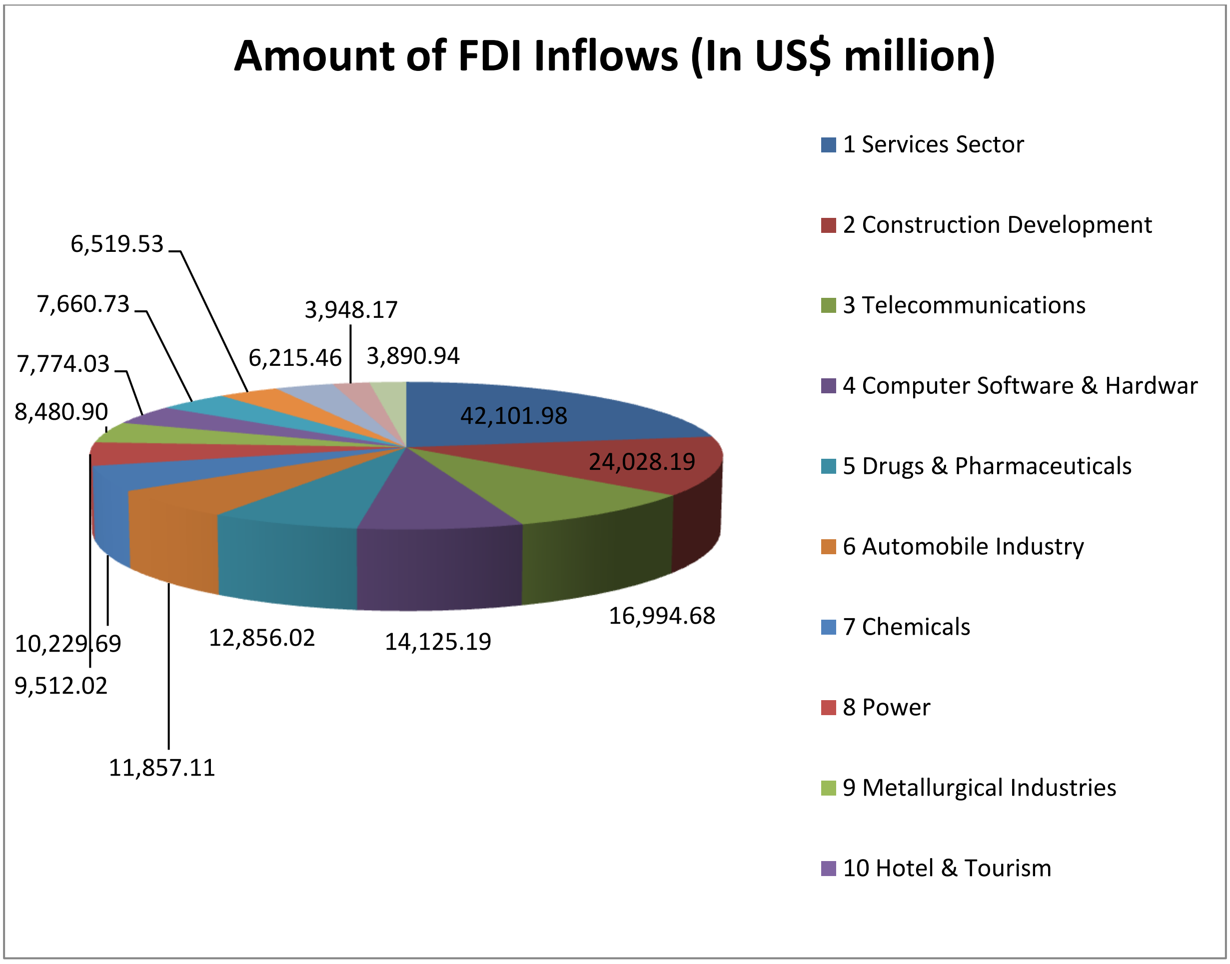

Figure also revealed the graphically sector wise FDI inflow in the country.

CHALLENGES OF FDI IN INDIA

Resource challenge: India is known to have huge amounts of resources. There is manpower and significant availability of fixed and working capital. At the same time, there are some underexploited or unexploited resources. The resources are well available in the rural as well as the urban areas. The focus is to increase infrastructure 10 years down the line, for which the requirement will be an amount of about US$ 150 billion. This is the first step to overcome challenges facing larger FDI.

Equity challenge: India is definitely developing in a much faster pace now than before but in spite of that it can be identified that developments have taken place unevenly. This means that while the more urban areas have been tapped, the poorer sections are inadequately exploited. To get the complete picture of growth, it is essential to make sure that the rural section has more or less the same amount of development as the urbanized ones. Thus, fostering social equality and at the same time, a balanced economic growth.

Political Challenge: The support of the political structure has to be there towards the investing countries abroad. This can be worked out when foreign investors put forward their persuasion for increasing FDI capital in various sectors like banking, and insurance. So, there has to be a common ground between the Parliament and the Foreign countries investing in India. This would increase the reforms in the FDI area of the country.

Federal Challenge: Very important among the major challenges facing larger FDI, is the need to speed up the implementation of policies, rules, and regulations. The vital part is to keep the implementation of policies in all the states of India at par. Thus, asking for equal speed in policy implementation among the states in India is important.

India must also focus on areas of poverty reduction, trade liberalization, and banking and insurance liberalization. Challenges facing larger FDI are not just restricted to the ones mentioned above, because trade relations with foreign investors will always bring in new challenges in investments.

Identification of ‘environment clearances, land acquisition and rehabilitation’ is the key issues that delayed large investment projects.

CONCLUSION

The new Modi government is committed to improving the foreign direct investments in India, particularly in the areas of defence, insurance and infrastructure. The companies which are considering in investing in India will look at several parameters such as Ease of doing business in India, reduce Taxes, reasonable rate of return from their investments, corruption free environment etc. 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. India has also trying hard to attract more FDI inflows in order to speed up the process of growth and development of its economy. Present study reveals that in India, FDI inflows are on the up-tick. FDI inflows during the April-December 2014 has registered a rise of 43 per cent and touched a level of US $ 12.2 billion. The largest FDI inflows come to telecommunications with an amount of US $ 2.33 followed by services amounting US $ 1.08 billion and the lowest is in case of computers software just 0.37 billion.

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