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FOREIGN DIRECT INVESTMENT (FDI) AND ITS IMPACT ON INDIA

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Abstract

Foreign Direct Investment (FDI) acquired an important role in the international economy after the Second World War. Theoretical studies on FDI have led to a better understanding of the economic mechanism and the behaviour of economic agents, both at micro and macro level allowing the opening of new area of study of economic theory. Foreign investments are the indispensable factors that help in boosting the growth of Indian economy. With the introduction of liberalisation policy under the finance ministry of Dr. Manmohan Singh in 1991 & with further few policy reforms, India has witnessed a change in the flow and direction of foreign direct investment (FDI) into the country. Long-term economic growth is a result of foreign direct investment (FDI). MNCs help domestic enterprises transfer technologies. In the businesses, there is organic growth or expansion. FDI is preferable to FII, sometimes known as hot money, which moves to the stock and bond markets and is very volatile. The stock market increases and draws more capital as a result of the strong growth in business due to FDI, which also helps enterprises by raising more money.

In FDI, technical know-how is transferred to the domestic market, resulting in the development of skills, which, when combined with more capital, increases productivity and profitability. This study examines the effects of FDI on the Indian economy, particularly following two decades of economic changes, and it assesses the difficulties India faces in gaining an advantage in the global battle for FDI. This paper has made an attempt to analyse the trend of FDI flow into the country.

Keywords: FDI, Economy, Liberalisation policy, Economic mechanism.

Introduction

The Indian government agreed to permit 100 percent foreign ownership of single-brand retail establishments, paving the door for multinational corporations like Starbucks, IKEA, and ADIDAS to run their operations freely in the nation without involving local partners. According to the Indian government, the foreign investment promotion board (FIPB) has approved Christian Louboutin's request to establish retail chains in the nation, despite the fact that other international brands, like Mother Care and Marks & Spencer, have already established joint ventures there. The announcement comes almost four weeks after the government was compelled to postpone its plans to open up the market to multinational retail chains like Wall-Mart and Carrefour due to opposition from allies and congress leaders, and six weeks after the union cabinet approved the proposal. Retailers from abroad must purchase 30% of their products from tiny Indian villages, cottage industries, and artisans in order to invest more than 51%. Small industries are those where the investment in plant and machinery is less than $1 million USD.

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According to the updated rules for this industry, retail sales of single-brand products are now allowed to be conducted with up to 100% ownership with government approval. Subject to the following requirements, including that only single-brand products be sold, that products only be sold under the same brand globally, that only single-brand products be branded during industrialization, that the foreign shareholder should be the brand's owner, and that proposals linking FDI beyond 51% be admired. A request for permission from the government to allow FDI in retail trade of single brand products is made to the secretariat for industrial assistance in the department of industrial policy and endorsement. Mandatory sourcing of at least 30% of the value of the products sold would have to be done from Indian small industries/village and cottage industries, artisans, and craftsmen. The application would specifically identify the product(s) or product categories that are planned to be sold under a single brand would require new government clearance. Before the FIBP considers the application for government approval, it would be reviewed through the department of industrial policy and promotion to make sure the proposed items to be sold comply with the informed guideline.

Need of the study

Foreign Direct Investment (FDI), in addition to being a key driver of economic growth, has been a significant non-debt financial resource for India's economic development. Foreign corporations invest in India to benefit from the country's particular investment privileges such as tax breaks and comparatively lower salaries. This helps India develop technological know-how and create jobs as well as other benefits. These investments have been coming into India because of the government's supportive policy framework, vibrant business climate, rising global competitiveness and economic influence.

Research methodology

Descriptive research is used for this study. Secondary data is used to collect the data.

Data collection tools

Data has been collected from secondary sources such as UNCTAD reports, RBI reports, research journals, articles, Government reports, etc. is considered for the study.

Review of literature

Agarwal and Khan conducted the study on “Impact of FDI on GDP: A Comparative Study of China and India”, the study found that 1% increase in FDI would result in 0.07% increase in GDP of China and 0.02% increase in GDP of India. It was found that China’s growth is more affected by FDI, than India’s growth.

Kumar and Karthike found out in their study on “Sectoral Performance through Inflows of Foreign Direct Investment (FDI)”, that Foreign Direct Investment has a major role to play in the economic development of the host country. Most of the countries have been making use of foreign investment and foreign technology to accelerate the place of their economic growth. FDI ensures a huge amount of domestic capital, production level and employment opportunities in the developing countries, which a major step towards the economic growth of the country.

Success

- According to the World Investment Report 2022, India was ranked eighth among the world's major FDI recipients in 2020, up from ninth in 2019.
- Information and technology, telecommunication and automobile were the major receivers of FDI in FY22.

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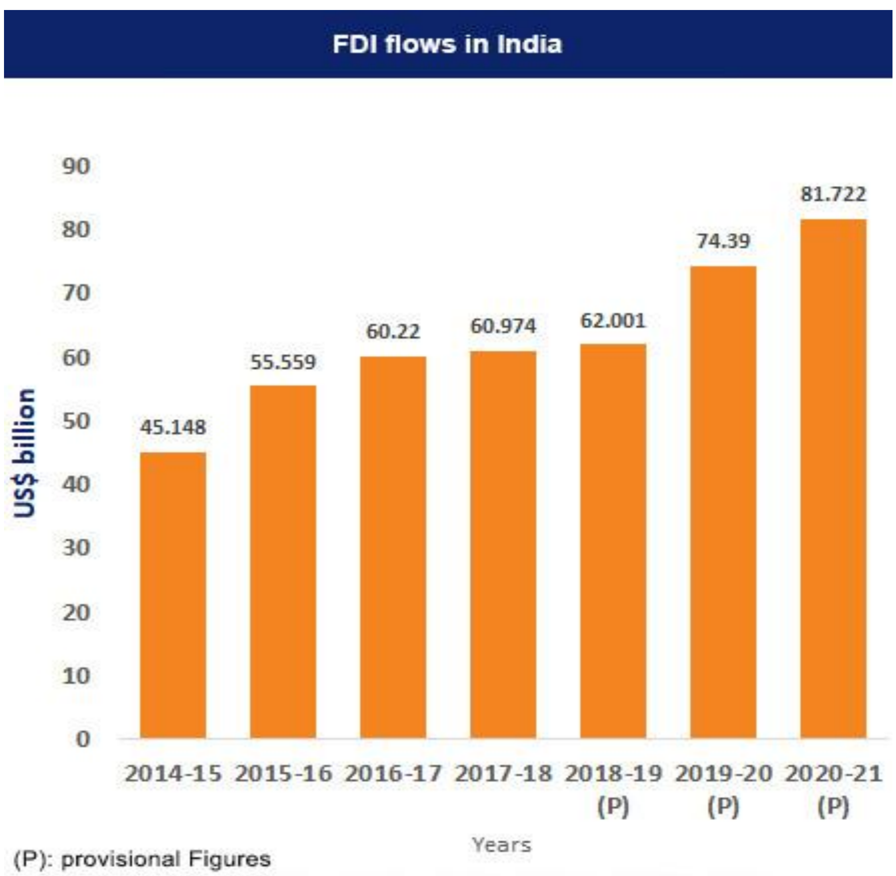
- With the help of significant transactions in the technology and health sectors, multinational companies (MNCs) have pursued strategic collaborations with top domestic business groupings, fuelling an increase in cross-border M&A of 83% to US$ 27 billion.

FDI and economic growth

India's FDI inflows have increased 20 times from 2000-01 to 2021-22. According to the Department for Promotion of Industry and Internal Trade (DPIIT), India's cumulative FDI inflow stood at US$ 871.01 billion between April 2000-June 2022; this was mainly due to the government's efforts to improve the ease of doing business and relax FDI norms. The total FDI inflow into India from January to March 2022 stood at US$ 22.03 billion, while the FDI equity inflow for the same period was US$ 15.59 billion.

From April 2021-March 2022, India's computer software and hardware industry attracted the highest FDI equity inflow amounting to US$ 14.46 billion, followed by the automobile industry at US$ 6.99 billion, trading at US$ 4.53 billion and construction activities at US$ 3.37 billion.

India also had major FDI flows coming from Singapore at US$ 15.87 billion, followed by the US (US$ 10.54 billion), Mauritius (US$ 9.39 billion) and the Netherlands (US$ 4.62 billion). The state that received the highest FDI during this period was Karnataka at US$ 22.07 billion, followed by Maharashtra (US$ 15.43 billion), Delhi (US$ 8.18 billion), Gujarat (US$ 2.70 billion) and Haryana (US$ 2.79 billion). In 2022 (until August 2022) India received 811 Industrial Investment Proposals which were valued at Rs. 352,697 crores (US$ 42.78 billion).



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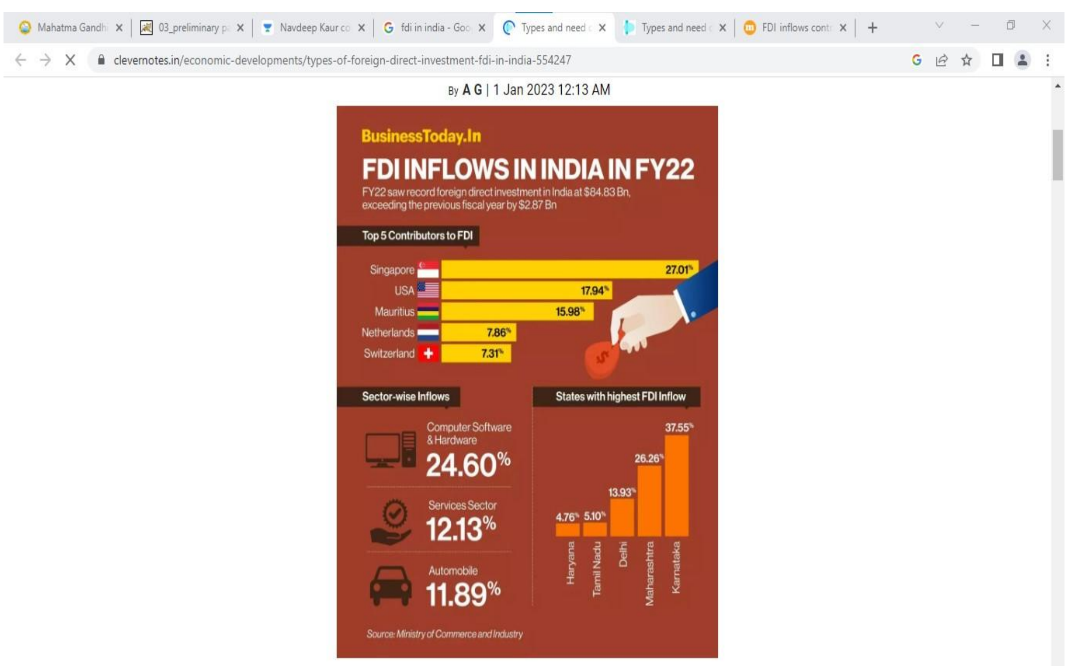
Latest investments and developments

- From April-June 2022, India's Computer Software & Hardware industry received and FDI investments of US$ 3,427 million.
- In May 2022, India received FDI investments of Rs. 494 crore (US$ 61.91 million) in the defence manufacturing sector.
- In May 2022, KoinBasket, a thematic crypto investment star-tup, raised US$ 2 million in a pre-seed funding round.
- In May 2022, Invictus Insurance Broking Services Pvt. Ltd, which runs insurtech platform Turtlemint Insurance Services Pvt. Ltd, raised US$ 120 million in a Series E funding round led by Amansa Capital, Jungle Ventures and Nexus Venture Partners.
- In May 2022, Jaipur-based online furniture and home decor platform Woodenstreet.com raised around US$ 30 million in a Series B funding round led by West Bridge Capital.
- In May 2022, B2B cross-border tech platform Geniemode received US$ 28 million in a Series B funding round led by Tiger Global and Info Edge Ventures.
- In January 2022, Google announced a US$ 1 billion investment in Indian telecom Bharti Airtel, which includes an equity investment of US$ 700 million for a 1.28% stake in the company, and US$ 300 million for a potential future investment in areas such as smartphone access, networks and the cloud.
- In 2021, India received R&D investments of Rs. 343.64 million (US$ 4.35 million); this was 516% higher compared to the previous calendar year.
- Canada's pension fund investment board invested Rs. 1,200 crore (US$ 160.49 million) as an anchor investor in the IPO of multiple Indian companies: One97 Communications (Paytm), Zomato, FSN E-Commerce Ventures (Nykaa) and PB Fintech.
- The FDI in India's renewable energy sector stood at US$ 1.03 billion for the first half of FY2021-22.



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Government initiatives

India has developed various schemes and policies that have helped boost India's FDI. These schemes have prompted India's FDI investment, especially in upcoming sectors such as defence manufacturing, real estate, and research and development. Some of the major government initiatives are:

- The Government of India increased FDI in the defence sector by increasing it to 74% through the automatic route and 100% through the government route.
- The government has amended rules of the Foreign Exchange Management Act (FEMA), allowing up to 20% FDI in insurance company LIC through the automatic route.
- The government is considering easing scrutiny on certain FDIs from countries that share a border with India.
- The implementation of measures such as PM Gati Shakti, single window clearance and GIS-mapped land bank are expected to push FDI inflows in 2022.
- The government is likely to introduce at least three policies as part of the Space Activity Bill in 2022. This bill is expected to clearly define the scope of FDI in the Indian space sector.
- In September 2021, India and the UK agreed for an investment boost to strengthen bilateral ties for an 'enhanced trade partnership'.
- In September 2021, the Union Cabinet announced that to boost the telecom sector, it will allow 100% FDI via the automatic route, up from the previous 49%.
- In August 2021, the government amended the Foreign Exchange Management (non-debt instruments) Rules, 2019, to allow the 74% increase in FDI limit in the insurance sector.

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Advantage to India

India's advantageous demography and steady growth trajectory make it an appealing destination for foreign investment. In the last two decades (April 2000 – December 2022), India has attracted over US$904 billion in total FDI.

Despite the Indian government's restrictions on FDI from countries that share land borders with India, such as China, the country received a record FDI inflow of approximately US$84.8 billion in the fiscal year (FY) 2022, including US$7.1 billion in FDI equity inflows in the services sector.

In FY 2023, there was a slight drop in FDI due to various factors, including the ongoing conflict between Russia and Ukraine, changes in US monetary policy, and other global uncertainties.

Conclusion

India has recently become a major global hub for FDIs. According to a survey, India was among the top three global FDI destinations; about 80% of the global respondents had plans to invest in India. Furthermore, in recent years, India has provided huge corporate tax cuts and simplified labour laws. The country has also reduced its restrictions on FDI; overall FDI restrictions have reduced from 0.42 to 0.21 in the last 16 years. India has remained an attractive market for international investors in terms of short- and long-term prospects. India's low-skill manufacturing is one of the most promising industries for FDI. India has also developed excellent government efficiency. Its developments in government efficiency are primarily due to relatively stable public finances (despite COVID-induced challenges) and optimistic sentiment among Indian business stakeholders concerning the funding and subsidies offered by the government to private firms. All these factors together may help India attract FDI worth US$ 120-160 billion per year by 2025.

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