

FDI: PROSPECTS, CHALLENGES AND ALTERNATIVES

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PREFACE

Foreign Direct Investment (FDI) has played an important role in the process of globalization during the past two decades. The rapid expansion in FDI by multinational enterprises may be attributed to significant changes in technologies, greater liberalization of trade and investment regimes, and deregulation and privatization of markets in many countries including emerging economies like India. The role of Foreign Direct Investment in an economy goes beyond simple transfer of capital between countries. FDI inflows are associated with multiple benefits such as technology transfer, market access and organizational skills. However FDI is always a controversial topic because of its exploitative practices and impact on local businesses and environment. There is no consensus on the benefits of FDI flows to a country. It is a debatable issue among corporate, political groups, academicians, pressure groups and other stakeholders in an economy. This book aims to provide the reader with various prospects, challenges, trends and problems of FDI and every attempt has been made to make the book simple, comprehensive as well as understandable of all academic backgrounds.

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SWOC ANALYSIS OF FDI IN HEALTH CARE INDUSTRY OF INDIA

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ABSTRACT

The expansion of health care industry is necessary for stable growth of an economy. Indian health care industry is in its nascent stages with large scope for expansion. This paper is an attempt to identify the progress of FDI in this sector and to evaluate its future prospects with help of SWOC analysis.

Keywords: SWOC Analysis, Foreign Direct Investment

INTRODUCTION

Since the past decade the Indian health care industry has been fast growing with expansion in middle income population, increasing health awareness and changing attitude towards preventive health care, better governmental health care initiatives and also by the increasing participation of private players in the industry. The health care, as the term denotes, includes all aspects necessary for building up a healthy society. The health care industry is thus a broad theme including Hospitals, Pharmaceuticals, Medical Equipment's, Diagnostics, Medical Insurance, Telemedicine and all other areas contributing to the improvement of health indicators. Indian health care market, including all these, now worth 100 billion US dollar and it's expected to grow to 280 billion US dollars by 2020 at a compound annual growth rate of 22.9 percent.ⁱⁱⁱ

In recent times, India achieved significant progress in terms of its health indices. The maternal mortality reduced from 215 in 2005 to about 174 by 2015, the infant mortality rate reduced from 55.8 in 2005 to around 37 by 2015 and average life expectancy increased to about 68 years by 2014.

India is now included in the median human development category according to the human development index ranking of countries. This progress is not enough as the country is still in the 130th position according to HDI ranking and it is far behind many other developed and developing nations. This slow progress attributes to its inadequacy in health expenditure. India's health expenditure, as a percentage of GDP, is only around 4 percent while it is about 17 percent in US and more than 9 percent in Japan, UK and Brazil and about 5 percent in China. India's public expenditure on health (as a percentage of total expenditure on health) is only 32 percent, while even China and Brazil have a better public spending on health of about 55 and 48 percent respectively. This makes it clear that more than 60 percent of health expenditure in India is made by the public out of their income.

There is a significant scope for improvement in this sector due to rising demand and 70 percent of Indian population lives in the rural regions which can be a potential demand source in future. This paper attempts to analyse the situation of health care industry in India, progress of FDI's in health care sector and to analyse its prospects.

THE INDIAN HEALTHCARE INDUSTRY

The Hospital market is the significant part of the Indian health market and it accounts for about 71 percent of the total health expenditure in India. Indian hospital system comprises of public and private hospitals . The Government, i.e. public healthcare system comprises limited secondary and tertiary care institutions in key cities and focuses on providing basic healthcare facilities in the form of primary healthcare centers (PHCs) in rural areas. The private sector provides majority of secondary, tertiary and quaternary care institutions with a major concentration in metros, tier I and tier II cities. Healthcare delivery, which includes hospitals, nursing homes and diagnostics centers, and pharmaceuticals, constitutes 65 per cent of the overall market.ⁱⁱⁱ The government's share in Indian healthcare market is being reducing and now it's only about 20 per cent and now the major contribution is from the private entities. Government healthcare service consists of, as on 31st March, 2015, there are 153655 Sub Centres, 25308 Primary Health Centres (PHCs) and 5396 Community Health Centres (CHCs) functioning in the rural areas of the country.^{iv} There are about 3490 government hospitals in urban areas^v, 189 government medical colleges as of 2015, about 41 government mental hospitals and as on 2013, medical

facilities under AYUSH management status i.e dispensaries and hospitals are 26102 and 3631 respectively.^{vi} The private healthcare providers consist of private practitioners, for profit hospitals and nursing homes, and charitable hospitals. They are numerous and fragmented. In the absence of a national regulatory body, some private providers practice without minimum standards and the quality of treatment varies from one provider to another. The health sector infrastructure, thus include contributions from both private and government sector. In addition to the above mentioned, India also has 2760 licensed blood banks, 259 licensed functional eye banks and many other essential facilities.

The pharmaceutical market contributes about 13 percent of the Indian health care delivery. It is the third largest in terms of volume and thirteenth largest in terms of value. Branded generics dominate the pharmaceuticals market, constituting nearly 70 to 80 per cent of the market. India is the largest provider of generic drugs globally with the Indian generics accounting for 20 per cent of global exports in terms of volume. The Indian pharmaceutical industry is estimated to grow at 20 per cent compound annual growth rate (CAGR) over the next five years. India's biotechnology industry comprising bio-pharmaceuticals, bio-services, bio-agriculture, bio-industry and bioinformatics is expected grow at an average growth rate of around 30 per cent a year and reach US\$ 100 billion by 2025. Biopharma, comprising vaccines, therapeutics and diagnostics, is the largest sub-sector contributing nearly 62 per cent of the total revenues at Rs 12,600 crore (US\$ 1.9 billion).^{vii}

The medical equipment and supplies market contributes about 9 percent of the total value of the health care market. The Indian medical device market is the fourth-largest in Asia, with 700 medical device manufacturers. India's medical device market is forecasted to expand at a CAGR of over 15 percent during 2012-2016. Medical insurance is the next big contributor in the Indian health care market and its contribution is about 4 percent. Around 22 crore individuals were covered under any health insurance schemes in 2013-14. This is approximately equivalent to 18 percent of the Indian population and out of this 67 percent are covered under various public insurance companies such as National, New India, Oriental, and United India Insurance companies. Diagnostics market contributes about

3 percent of total health expenditure and it comprises of businesses and laboratories that offer analytical or diagnostic services, including body fluid analysis.

India's per capita health expenditure is lower compared to many other countries (as explained in table 1) mainly on account of large population and lower per capita income.

Table 1
India's Public Expenditure on Health as % of GDP

Year	Public Expenditure on Health as % of GDP
2009-10	1.12
2010-11	1.07
2011-12	1.09
2012-13	1.08
2013-14 (RE)	1.16
2014-15 (BE)	1.26

Source: National Health Profile, 2015

Table 2
India's Per Capita Health Expenditure

Per capita Health Expenditure	(US\$)
India	61.40821
United Kingdom	3597.917
United States	9145.828
China	366.863
Brazil	1084.579
Japan	3965.582
South Africa	593.4542
Sri Lanka	102.4953

Source: World Bank Data Base, year :2013

India's total public expenditure for the year 2012-13 is 1.08 lakh crores. The out-of- pocket medical expenditure in India incurred during 2011-12 was rupees 146 for urban areas and 95 for rural area.

Table 3
Out of Pocket Expenditure (OOPS) as % of Total Health Expenditure

Year	Brazil	SouthAfrica	Srilanka	USA	UK	Japan	India
2005	37	18	45	13	10	15	69
2006	36	18	43	13	10	17	67
2007	34	9	42	13	10	16	65
2008	31	9	44	13	9	15	63
2009	32	8	44	12	9	15	61
2010	31	7	45	12	9	14	60
2011	30	7	48	12	9	14	61
2012	30	7	51	12	9	14	61
2013	30	7	47	12	9	14	58

Source: Global Health Expenditure Database

And also about 60 percent of this out-of – pocket expenditure is on medicines both in rural and urban areas.

Table 4
Status of India’s Human Resources directly employed in the Health Sector

Doctors	938861
Dental Surgeons	154536
AYUSH Practioners	736538
Auxiliary Nurse Midwives	786061
Registered Nurses	1780006
Lady Health Visitors	55914
Pharmacists	664176

Source: National Health Profile, 2015

Table 5
Population Served Per Doctor/ Dental Surgeon/AYUSH/Nurse /
Pharmacist

S.No.	National Councils Registered (Latest)	Population Served per Doctor/Dental surgeon/ AYUSH/ Nurse/Phamacist*
1	Per Doctor both Allopathic and AYUSH	1472.73
1.1	Allopathic Doctor	1319.57
1.2	AYUSH Doctor	1682.04
2	Dental Surgeon	8022.00
3	Nurse	482.79
4	Pharmacist	1865.29

Source: National Health Profile, 2015

FDI in Health Care Industry

Since January 2000, the Indian government allowed up to 100 percent FDI in hospital under the automatic route, under which no government approval is required. In 2001, 100 percent FDI is allowed through the automatic approval route in the pharmaceutical sector. In 2011, the Indian government changed the pharmaceutical FDI norm. Greenfield projects are allowed for up to 100 percent FDI though automatic route, while Brownfield projects are allowed up to 100 percent FDI through clearance from FIPB. Currently FDI is permitted up to 100 percent under the automatic route in hospital sector and manufacture of medical and surgical equipment. Further FDI in pharmaceutical sector is permitted up to 100 percent in all green field projects under automatic route and 100 percent in all brown field projects under FIPB approval route. The government of India, in January 2015, issued a separate FDI norm for medical devices manufacturing by allowing FDI up to 100 percent under automatic route. Earlier it was considered along with Pharmaceutical sector, where it faced stiff foreign investment conditions.

Table 6
FDI Equity Inflows in Health Sector from April 2000 to December 2015

Sector	Amount of FDI inflows (In US\$ million)	% of Total Inflows
Drugs & Pharmaceuticals	13446.82	4.84
Hospital & Diagnostics Centre	3409.56	1.23
Medical & Surgical Appliances	1035.99	0.37

Source: DIPP, FDI Statistics

- FDI in Drugs & Pharmaceuticals Sector
 Drugs & Pharmaceuticals Sector is ranked sixth in sector wise allocation of FDI in India.

Table 7
**Share of Top Five Countries Attracting FDI Equity Inflows for
 Drugs & Pharmaceuticals (From January, 2000 to December, 2014)**

Ranks	Country	% age of total FDI inflows for Drugs & Pharmaceuticals
1.	Japan	34.25
2.	United Kingdom	24.29
3.	Singapore	16.36
4.	Mauritius	9.20
5.	U.S.A	2.40

Source: DIPP, FDI Statistics

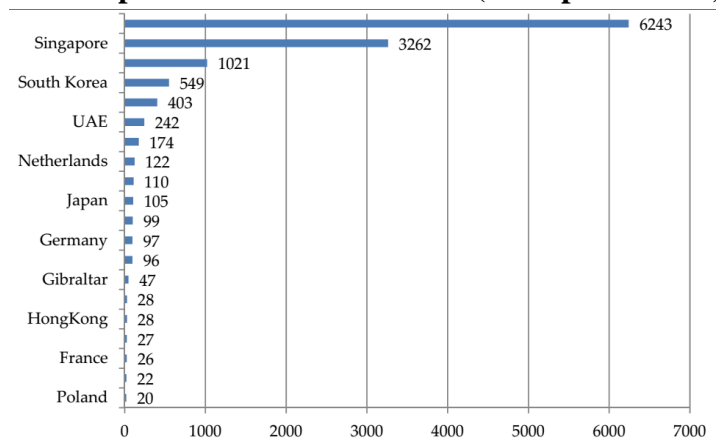
Table 8
Share of Top Five RBI's Region-Wise (With States Covered) in FDI
Equity Inflows for Drugs & Pharmaceuticals
(From January, 2000 to December, 2014)

Ranks	RBI's Regional Office	States Covered	%age with total FDI inflows for Drugs & Pharmaceuticals
1	Mumbai	Maharashtra, Dadra & Nagar Haveli, Daman & Diu	33.82
2	Chennai	Tamil Nadu, Pondicherry	7.03
3	Hyderabad	Andhra Pradesh	4.28
4	Bangalore	Karnataka	2.77
5	Ahmedabad	Gujarat	2.35

Source: DIPP, FDI Statistics

- FDI in Hospital Sector

Figure 1
Country's with Top Shares of FDI Equity Inflows in Hospital Sector
from April 2000 to October 2014 (in Rupees crores)



Source: Department of Industrial Policy and Promotion, GOI
 Singapore is second highest contributor of FDI in this sector.

- **FDI in Medical and Surgical Appliances**

Since the easing of FDI norm for medical devices manufacturing in January 2014, there is a significant progress in FDI in this sector. The FDI equity inflow in this sector for the period from April 2000 to February 2014 was about 776.94 million US dollar but it increased to about 995 million US dollars by February 2015 i.e. it registered a year on growth of about 19 percent February 2014 and February 2015.

SWOC ANALYSIS OF FDI IN HEALTH CARE SECTOR

FDI inflows into this sector have been relatively stable over the years particularly in Pharmaceutical and Drug segment. But there were some downfalls which happened in other two segments of this industry. The paper tries to analyse the Strengths, Weakness, Opportunities and Challenges of health care sector particularly in the context of foreign direct investment.

STRENGTHS

1. Expanding foreign investment – Foreign investment has been expanding over the years in all areas of this sector. There were large international collaborations and take overs in Pharmaceutical and hospital sector.
2. Relatively flexible FDI norms – Health care industry is the one with most flexible FDI norms and it is reason for the pharmaceutical sector for being one of the highest receiver of foreign equity inflow.
3. Favourable Government Initiatives- The government is introducing various schemes for health care development like NRHM, NUHM, and various health insurance schemes. Some of the proposed policies are as follows:
 - a. The Department of Pharmaceuticals has prepared a "Pharma Vision 2020" document for making India one of the leading destinations for end-to-end drug discovery and innovation. The Government is also embarking on a major multi-billion dollar initiative with 50 per cent public funding through a public-private partnership (PPP) model to harness India's innovation capability. The tax-breaks to the pharmaceutical sector and weighted tax deduction at 150% for the R&D expenditure incurred.

- b. Rise in funding for the sector: The government has increased the plan allocation for public health spending to USD 5.96 billion in 2011–12 from USD 4.97 billion in 2010–11. Further, the Ministry of Health and Family Welfare has decided to increase health expenditure to 2.5% of GDP by the end of the 12th Five-Year Plan, from the current 1.4%.
- c. Encouraging policies: The government is also encouraging the growth of this market through policies such as a reduction in import duties on medical equipment, higher depreciation on life-saving medical equipment (40%, up from 25%), and a number of other tax incentives.
- d. Reduction in customs duty: Customs duty on life-saving equipment has been reduced to 5% from 25%, and is exempted from countervailing duty. Import duty on medical equipment has been reduced to 7.5%.

WEAKNESS

1. Lack of adequate health care infrastructure: Insufficient facilities especially in rural areas and dependence on governmental health care institutions. There is a concentration of foreign direct investment in metro cities . From table 7 it is clear that majority of the FDI equity inflows in Pharmaceutical and drugs industry is in Mumbai region and also most of the large hospitals with foreign collaborations are established in urban or semi-urban areas of the country.
2. Large share of Out-of-Pocket expenditure on health which makes the medical expenses to be looked upon as a curse particularly by middle income and lower income households (refer table 3). The concept of medical insurance is also not familiar in the Indian context as only 22 percent is covered under various medical insurance schemes.
3. Relatively less number of qualified medical practitioners in comparison to the number of patients (Refer table 4 & 5). So there is need for the foreign investors to find the right talents and to equip as the availability of trained professional is relatively less.

OPPORTUNITIES

All of the above mentioned areas can be interpreted as opportunities for foreign investors. Some of the most encouraging ones as follows:

1. Large market: Availability of large untapped market is the peculiarity of Indian health care industry, especially in rural areas of the country.

Rural India is still poor in terms of health indices and it has large scope for betterment.

2. Widening middle income group and concern for preventive health care: The situation of Indian citizens has been fast changing particularly with a development of service sector. Now, India has an expanding middle income population with a better knowledge and concern for health.
3. Scope for more international collaborations especially in research and development: even though there are Indian hospital groups who are doing relatively better in treatment of patients, they lag behind in terms of diagnostics and research. This is mainly on account of the advanced technology available with the foreign health care institutions.
4. Manufacturing of medical and surgical devices: About 70 percent of medical and surgical devices demand in India is met through imports. This is also an area where the foreign investment is lacking (refer table 6).

CHALLENGES

1. Competition: The challenges with regard to foreign direct investment in health care industry can be analysed with two opposing views.
 - a. Facing stiff competition from the domestic players: Foreign investors will face stiff competitions from the domestic investors especially in Pharmaceutical sector. Indian generic drug industry is one of the largest exporters and also Indian drug industry is doing better even in international markets. Acquisition of Ranbaxy Laboratories by Sun Pharama is an example for potential of Indian firms.
 - b. Foreign Investors can also deny the entry of domestic investors: This could happen in certain sectors like research and development. Manufacture of medical equipments sector etc. This is again a challenge for the foreign investors to coexist along with domestic partners.
2. Unfavourable governmental regulation especially on account of environmental protection norms which can affect the production and disposal of medical and surgical appliances.(Renuka, 2013) and

changing political landscape which could become domestic investors friendly in future.

CONCLUSION

Foreign Direct Investment in healthcare is necessary for India to meet all its demand deficiencies in medical equipment's, to improve the standards of Indian health care facilities and to build a healthy economy with better health indices which is required for a developed nation. The strengths, weakness, opportunities and challenges of FDI in health care should be analysed to improve its performance.

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TRENDS IN FOREIGN DIRECT INVESTMENT FLOWS: A THEORETICAL AND EMPIRICAL ANALYSIS

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ABSTRACT

Foreign direct investment (FDI) is a major source of non-debt financial resource for the economic development of India. It is the most influential financial resource, especially for the emerging sectors. Foreign direct investment helps in exploiting a wide range of opportunities and utilizing the same to attain the desired level of development in the nation. Foreign companies invest in India to take advantage of relatively lower wages, special investment privileges such as tax exemptions, etc. For a country where foreign investments are being made, it also means achieving technical know-how and generating employment. The Indian government's favourable policy regime and robust business environment have ensured that foreign capital keeps flowing into the country. The government has taken many initiatives in recent years such as relaxing FDI norms across sectors such as defence, PSU oil refineries, telecom, power exchanges, and stock exchanges, among others.

Key words: Foreign investment, trends, inflows, economic development

FOREIGN DIRECT INVESTMENT

Foreign direct investment (FDI) is an integral part of an open and effective international economic system and a major catalyst to development. Foreign Direct Investment (FDI) refers to the net inflows of investment to acquire a lasting management interest in an enterprise operating in an economy other than that of the investor. It usually involves participation in management, joint ventures, transfer of technology and expertise. Thus foreign direct investment refers to investment in a foreign country where the investor retains control over the investment. Foreign direct investment (FDI) plays an extraordinary and growing role in global business. It can provide an organisation new markets and marketing channels, cheaper production facilities, access to new technology, product

skills and financing. For a host country or the foreign firm that receives the investment, it can provide a source of new technologies, capital, processes, products, organisational technologies and management skills, and as such can provide a strong impetus to economic development.

IMPORTANCE OF FDI

The importance of FDI plays a very important role in the development of an economy due to a number of reasons, some of which are listed below:

1. Helps to avoid foreign government pressure for local production.
2. Aids in circumventing trade barriers, hidden and otherwise.
3. Enables making the move from domestic export sales to a locally-based national sales office.
4. Helps in increasing the total production capacity.

SOURCES OF FOREIGN DIRECT INVESTMENT IN INDIA

By catching the attention of the economies worldwide, India has been able to gain a huge sum by the way of equity inflows. Singapore has become the largest investor with a total investment of \$13.69 billion during the financial year 2015-16. Followed by Singapore are the economies including Mauritius and USA investing \$8.35 and \$4.19 billion respectively. The aggregate Merger and Acquisition (M&A) deals as well as the private equity deals, which are the methods of foreign direct investment inflow, have grown up 2 times from the last year of 2015.

Foreign direct investment in India has shot up 318.2 times starting from the year 1991 to 2005, from \$129 million in 1991-92 to \$41050 million. Before the year 2015-16, Mauritius was the topmost investor in the country as succeeded by Singapore. Still, the country is the major investor with its cumulative percentage share to total inflows being 34% more than double the percentage of Singapore.

The report of the department of industrial policy and promotion has shown that India has been able to gain value in various sectors including the service sector, information technology (IT) sector, automobile industry, pharmaceutical sector, power industry and construction business from the period of 2000 until 2015.

ROUTES FOR FDI

Basically, there are two routes for FDI in India. There is the Automatic Route, where no approval or authority is required by the private foreign investor. He can invest in any company it wishes with no need for government approval. And then there is the Government Route. In this route, there is no investment without the prior approval of the Government of India. Foreign Direct Investment in India does not have a uniform rate. Some industries allow 100% FDI, i.e. the entire funds of the business can be from foreign direct investment. The percentages vary from 26% to 49% to 51%. There are a few industries where FDI is strictly prohibited under any route. These industries are

- i. Atomic Energy Generation
- ii. Any Gambling or Betting businesses
- iii. Lotteries (online, private, government, etc)
- iv. Investment in Chit Funds
- v. Nidhi Company
- vi. Agricultural or Plantation Activities (although there are many exceptions like horticulture, fisheries, tea plantations, Pisciculture, animal husbandry, etc)
- vii. Housing and Real Estate (except townships, commercial projects, etc)
- viii. Trading in TDR"s
- ix. Cigars, Cigarettes, or any related tobacco industry

TRENDS OF FOREIGN DIRECT INVESTMENT IN INDIA

Foreign direct investment in India is the most influential financial resource, especially for the emerging sectors. Foreign direct investment helps in exploiting a wide range of opportunities and utilizing the same to attain the desired level of development in the nation. The world economy including both the developed countries and other emerging countries are facing some varying trends of foreign direct investment in recent years.

The major player that is coming into view of late in India. Analysing the trend of foreign direct investment in India shows that it is rising and the main reasons for such an increase are due to new

government policies and various initiatives such as Make in India. The country has faced elevated trends of the foreign direct investment due to building investor-friendly climate in the country, thereby enabling the ease of doing business. India has been able to climb up to 10th position in 2015 from 15th position in 2014 as a trusted nation for foreign direct investment. As a result, India has attracted foreign direct investments worth of \$40 billion for the financial year 2015- 16, which was 29.2% higher than the last year (UNCTAD, 2016).

Table 1
Share of Top Investing Countries FDI Equity Inflows
(Financial Years)

Country	2015-16 (April – March)	2016-17 (April – March)	2017-18 (April,17– June,17)	%age to total Inflows (in terms of US \$)
Mauritius	54,706	105,587	21,226	34%
Singapore	89,510	58,376	19,403	17%
Japan	17,275	31,588	2,899	8%
U.K	5,938	9,953	904	7%
Netherlands	17,275	22,633	3,765	6%
U.S.A	27,695	15,957	4,256	6%
Germany	6,361	7,175	5,142	3%
Cyprus	3,317	4,050	787	3%
France	3,937	4,112	633	2%
Uae	6,528	4,539	390	1%
262,322	291,696	67,086		-

Source: Dept. of Industrial policy and promotions – FDI Fact sheet
April to June 2017

FDI INFLOWS: COUNTRY WISE

Table 1 displays the FDI inflows from different countries. It shows that the total FDI inflows from all countries has been increased from 262322cr to 291, 6696 from April 2015-2016. But there was declining trend in the FDI inflows from April 2016- 2017 from 291,696 to 67086 cr. The According to above table analysis it reveals that Mauritius, Singapore and Japan have been top three source countries of FDI inflows to India contributing 36.2%, 20% and 10.8%, respectively.

Table 2
Sectors attracting highest FDI equity inflows

Sector	2015-16 (April – March)	2016-17 (April – March)	2017-18 (April,17– June,17)	% age to total Inflows (In terms of US\$)
Services sector **	45,415	58,214	12,134	18 %
Computer software & hardware	38,351	24,605	8,480	8 %
Construction development: Townships, housing, built-up infrastructure	727	703	1,616	7 %
Telecommunications (radio paging, cellular mobile, basic telephone services)	8,637	37,435	565	7 %
Automobile industry	16,437	10,824	4,613	5 %
Drugs & pharmaceuticals	4,975	5,723	1,811	4 %
Trading	25,244	15,721	4,955	4 %
Chemicals (other than fertilizers)	9,664	9,397	4,381	4 %
Power	5,662	7,473	1,139)	3 %
Hotel & tourism	8,761	6,140	2,152	3 %

Source: Dept. of Industrial policy and promotions July 2017

FDI Inflows: Sector wise

The above table reveals the sector-wise break-up of FDI inflows in India from the period 2015-16 to 2017-18. The majority of the inflows during the period were in service sector (18%), computer software and Hardware (8%) construction and Telecommunications (7%) and the lowest FDI inflows from Power and Hotel & Tourism (3%) respectively.

India has now emerged as one of the most open economies in the world for receiving foreign direct investments (FDI), on the back of a host of liberalisation measures. It pointed out that measures taken by the government have resulted in FDI equity inflow of \$43.4 billion in 2016-17, which is not only an increase of 8% over the previous year, but also the highest ever. The mid-year survey of the economy described FDI as an enabler of economic growth since it enhances productivity by bringing capital, skills and technology to the host country. “In 2016, the government has brought most of the sectors under the automatic approval route, except a small negative list comprising atomic energy, manufacture of cigars and tobacco, real estate business, lottery, gambling and chit fund etc. With these changes, India is now one of the most open economies in the world for FDI,” In terms of the sectors receiving FDI equity inflows, services (finance, banking, insurance etc.) sector received the highest (19.9%) followed by telecommunications (12.8%) and computer software and hardware (8.4%). Mauritius, Singapore and Japan have been top three source countries of FDI inflows to India contributing 36.2%, 20% and 10.8%, respectively.

GOVERNMENT INITIATIVES

- As of February 2019, the Government of India is working on a road map to achieve its goal of US\$ 100 billion worth of FDI inflows.
- In February 2019, the Government of India released the Draft National e-Commerce Policy which encourages FDI in the marketplace model of e-commerce. Further, it states that the FDI policy for e-commerce sector has been developed to ensure a level playing field for all participants.
- Government of India is planning to consider 100 per cent FDI in Insurance intermediaries in India to give a boost to the sector and attracting more funds.

- In December 2018, the Government of India revised FDI rules related to e-commerce. As per the rules 100 per cent FDI is allowed in the marketplace based model of e-commerce. Also, sales of any vendor through an e-commerce marketplace entity or its group companies have been limited to 25 per cent of the total sales of such vendor.
- In September 2018, the Government of India released the National Digital Communications Policy, 2018 which envisages increasing FDI inflows in the telecommunications sector to US\$ 100 billion by 2022.
- In January 2018, Government of India allowed foreign airlines to invest in Air India up to 49 per cent with government approval. The investment cannot exceed 49 per cent directly or indirectly.
- No government approval will be required for FDI up to an extent of 100 per cent in Real Estate Broking Services.
- In September 2017, the Government of India asked the states to focus on strengthening single window clearance system for fast-tracking approval processes, in order to increase Japanese investments in India.
- The Ministry of Commerce and Industry, Government of India has eased the approval mechanism for foreign direct investment (FDI) proposals by doing away with the approval of Department of Revenue and mandating clearance of all proposals requiring approval within 10 weeks after the receipt of application.
- The Government of India is in talks with stakeholders to further ease foreign direct investment (FDI) in defence under the automatic route to 51 per cent from the current 49 per cent, in order to give a boost to the Make in India initiative and to generate employment.
- In January 2018, Government of India allowed 100 per cent FDI in single brand retail through automatic route.

CONCLUSION

Foreign Direct Investment has been able to expand its roots in the country and is still the prospects of investment is higher. The business environment in India has become investor friendly because of the various policies formed by the government that are promising in this regard. Some notable policies have been made in the sectors mentioned above that can prove to be advantageous in the coming period of time for the economy of the country. The construction industry

is going to have a higher reach in the country as the Government has proposed to work under the Public Private Partnership projects in the infrastructure projects. Along with it, the government has also proposed some major reforms in the IT sector by making the fundraising norms easier and simplifying the taxation rules. Investment in financing, insurance, business sector and the real estate sector attracted towards the tax haven countries as the rules for foreign investors were complex. Besides, allowing 100% foreign direct investment in Asset Reconstruction Companies will surely help in extending the roots of foreign investments in the country. As far as the growth of service sector is concerned, more value to the service sectors including the health, transport, tourism, communication and education has only lead to such sector becoming the topmost sectors for investments in the country. It is because the government is taking steps towards digitization of the nation.

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THE ADVENT OF FOREIGN CAPITAL AND THE GENESIS OF NEOLIBERALISM IN INDIA

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ABSTRACT

Neoliberalism is a popular policy vehicle which is often perceived as a middle ground between the ideological paradigms offered by the Left, Right and Middle alike in the Indian political, economic and social panorama, explicitly associated with the economic policy making of the present day Third World Countries, preaching outright free market capitalism, and resembling the Classical, Smithian economic postulates. The neoliberal agendas were brought onto the Indian scenario, live and enamoured, onto the very bosom of Nehruvian socialistic being in the 1990s, crawled and walked and took intermittent leaps only to be shot down by the Economic recession of 2008. Many anticipated the rise of an alternative paradigm which didn't happen, all grateful to the ideological bankruptcy of Left, Right and Middle alike. One can't ignore the signs and symptoms of the 25 year old agenda at work ; The LPG mantra initiated by the Rao-Singh Duo in the 1990s, various structural readjustment programmes sanctioned and served well by various ruling parties after the 1990s till this day welcoming FDI, the disinvestment and privatisation moves initiated by various governments, the strategically symbolic maximum government and minimum governance initiatives, fiscal discipline and austerity drives, the hideous attack on the very federalism, as well as autonomy of the elite and dauntingly daring institutions speaks volumes of the neoliberal agendas.

THE IDEOLOGY OF NEOLIBERALISM

Neoliberalism is the 20th century pre-adaptation of 19th-century ideology associated with Smithian fair economic and free market . While it is most often associated with such ideas, the defining features of neoliberalism in both thought and practice have been the subject of substantial academic discourse. These ideological foundations and theorizations often includes

socio, political as well as economic liberalization policies and strategies such as privatization, globalization, austerity motivated governance, deregulation and free trade as well as reductions in government spending in order to increase the role of the private sector and private enterprise in the economy and society. However it do have stark differences with its primitive free market capitalism that fuelled and funded the colonial and imperial drives across the globe and made Britain great. Neoliberal ideologies vouched for strong state intervention with regard to the adoption and implementation of their ideologies in an economic framework. These market based ideas as well as the policies and strategies they inspired constituted a paradigm shift away from the post-war Keynesian consensus which lasted from 1945 to 1980, which was primarily and purely welfare oriented and humanitarian. English speakers have used the term "neoliberalism" since the start of the 20th century with different meanings, but it became more prevalent in its current meaning in the 1970s and 1980s, used by scholars in a wide variety of social sciences as well as by critics. Modern advocates of free market policies avoid the term "neoliberal" and some scholars have described the term as meaning different things to different people, as neoliberalism "mutated" into geopolitically distinct hybrids as it travelled around the world in time. As such, neoliberalism shares many attributes with other concepts that have contested meanings, including democracy as well as socialism . However the definition and usage of the term have changed over time. As an economic philosophy, neoliberalism emerged among European liberal scholars in the 1930s as they attempted to trace a so-called "third" or "middle" way between the conflicting philosophies of classical liberalism and socialist planning. The encouragement for this development arose from a desire to avoid repeating the economic failures of the early 1930s, which neoliberals mostly blamed on the economic policy of classical liberalism. In the decades that followed, the use of the term "neoliberal" tended to refer to theories which diverged from the more laissez-faire doctrine of classical liberalism and which promoted instead, a market economy under the guidance and rules of a strong state, a model which came to be known as the socialist market economy. In the 1960s, usage of the term "neoliberal" heavily declined. When the term re-appeared in the 1980s in connection with Augusto Pinochet's economic reforms in Chile, the usage of the term had shifted. It

had not only become a term with negative connotations employed principally by critics of market reform measures, but it also had shifted in meaning from a moderate form of liberalism to a more radical and laissez-faire capitalist set of ideas. Scholars tended to associate it with the theories of Mont Pelerin Society economists such as Friedrich Hayek, Milton Friedman, and James M. Buchanan, along with politicians and policy-makers such as Margaret Thatcher, Ronald Reagan and Alan Greenspan. These stalwarts were often perceived as the torchbearers of the ideology of neoliberalism. Once the new meaning of neoliberalism became established as a common usage among Spanish-speaking scholars, it diffused into the English-language study of political economy. By 1990s, with the passage of NAFTA and such other globally regional power centres the term entered global circulation. Scholarship on the phenomenon of neoliberalism has been growing over the last couple of decades though a few continues to perceive it as a relaunched version of Smithian capitalism, which silently took over the reins of the developing nations of the world, with its vouching for a strong state sponsored market economy, riding high on puritan liberalism and profit motivation of yesteryears.

The Advent of Neoliberalism in most of the parts of the world nations in recent times was quite anonymous and silent. No other ideology has ever crept into the socio-economic-political frameworks so silently, and during the last twenty years or so, watering down the pre-existed notions and ideologies that fuelled the being and evolvement of the socio-economic-political structures across the globe. Almost all the major political social and economic ideologies pursued around the world stands diluted and mutated in a time bound manner by the influx of this social market economic ideology. This anonymous presence and sponsored mutating capability is what making it invincible and powerful across time as well space. Over the last twenty or thirty years, it has played remarkably well its role in a variety of crises which owes much to its dubious affinity to free market liberalism and profiteering upon state backing. Whether it be the financial meltdown of 2008, off shoring of wealth and assets, growing inequality and social unrest, ever increasing poverty, or collapse of public education and health or the declining environmental quality which has been catalyzed and exacerbated by the same ideology. The Neoliberalism sees competition as the defining characteristic

of human relations. It redefines citizens as consumers, whose democratic choices are best exercised by buying and selling, a process that rewards merit and punishes inefficiency. It maintains that “the market” delivers benefits that could never be achieved by planning. Attempts to limit competition are treated as inimical to liberty. Tax and regulation should be minimised, public services should be privatised. The organisation of labour and collective bargaining by trade unions are portrayed as market distortions that impede the formation of a natural hierarchy of winners and losers. Inequality is recast as virtuous: a reward for utility and a generator of wealth, which trickles down to enrich everyone. Efforts to create a more equal society are both counterproductive and morally corrosive. The market ensures that everyone gets what they deserve. Economic agents internalise and reproduce its creeds. The rich persuade themselves that they acquired their wealth through merit, ignoring the advantages – such as education, inheritance and class – that may have helped to secure it. The poor begin to blame themselves for their failures, even when they can do little to change their circumstances. Never mind structural unemployment the impossible costs of housing, and food or the failure or unavailability of public utilities that maximizes welfare. In a world governed by competition, those who fall behind become defined and self-defined as losers. In essence everybody is a neoliberal in thought and practice.

THE GENESIS AND EVOLUTION OF NEOLIBERALISM

The term neoliberalism was coined at a meeting in Paris in 1938. Among the delegates were two men who came to define the ideology, Ludwig von Mises and Friedrich Hayek. Both exiles from Austria, they saw social democracy, exemplified by Franklin Roosevelt’s New Deal and the gradual development of Britain’s welfare state, as manifestations of a collectivism that occupied the same spectrum as Nazism and Communism. In „The Road to Serfdom“, published in 1944, Hayek argued that government planning, by crushing individualism, would lead inexorably to totalitarian control. Like Mises’s book „Bureaucracy“, „The Road to Serfdom“ was widely read. It came to the attention of some very wealthy people, who saw in the philosophy an opportunity to free themselves from regulation and tax. When, in 1947, Hayek founded the first organisation that would spread the doctrine of neoliberalism – the Mont Pelerin Society – it was supported

financially by millionaires and their foundations. With their help, he began to create a kind of neoliberal international: a transatlantic network of academics, businessmen, journalists and activists. The movement's rich backers funded a series of think tanks which would refine and promote the ideology. Among them were the American Enterprise Institute, the Heritage Foundation, the Cato Institute, the Institute of Economic Affairs, the Centre for Policy Studies and the Adam Smith Institute. They also financed academic positions and departments, particularly at the universities of Chicago and Virginia. As it evolved, neoliberalism became more strident. Hayek's view that governments should regulate competition to prevent monopolies from forming gave way – among American apostles such as Milton Friedman – to the belief that monopoly power could be seen as a reward for efficiency. Something else happened during this transition: the movement lost its name. In 1951, Friedman was happy to describe himself as a neoliberal. But soon after that, the term began to disappear. Stranger still, even as the ideology became crisper and the movement more coherent, the lost name was not replaced by any common alternative.

At first, despite its lavish funding, neoliberalism remained at the margins. The post-war consensus was almost universal: John Maynard Keynes's economic prescriptions were widely applied, full employment and the relief of poverty were common goals in the US and much of western Europe, top rates of tax were high and governments sought social outcomes without embarrassment, developing new public services and safety nets. But in the 1970s, when Keynesian policies began to fall apart and economic crises struck on both sides of the Atlantic, neoliberal ideas began to enter the mainstream. As Friedman remarked, "when the time came that you had to change ... there was an alternative ready there to be picked up". With the help of sympathetic journalists and political advisers, elements of neoliberalism, especially its prescriptions for monetary policy, were adopted by Jimmy Carter's administration in the US and Jim Callaghan's government in Britain. After Margaret Thatcher and Ronald Reagan took power, the rest of the package soon followed: massive tax cuts for the rich, the crushing of trade unions, deregulation, privatisation, outsourcing and competition in public services. Through the IMF, the World Bank, the Maastricht treaty and the World Trade Organisation, neoliberal policies were imposed – often

without democratic consent – on much of the world. Most remarkable was its adoption among political parties of almost all ideologies across the globe. The freedom that neoliberalism offers, which sounds so beguiling when expressed in general terms, turns out to mean freedom for the pike, not for the minnows. Freedom from trade unions and collective bargaining means the freedom to suppress wages. Freedom from regulation means the freedom to poison rivers, endanger workers, charge iniquitous rates of interest and design exotic financial instruments. Freedom from tax means freedom from the distribution of wealth that lifts people out of poverty. Neoliberal theorists advocated the use of crises to impose unpopular policies while people were distracted. Where neoliberal policies cannot be imposed domestically, they are imposed internationally, through trade treaties incorporating “investor-state dispute settlement”: offshore tribunals in which corporations can press for the removal of social and environmental protections. When parliaments have voted to restrict sales of cigarettes, protect water supplies from mining companies, freeze energy bills or prevent pharmaceutical firms from ripping off the state, corporations have sued, often successfully, reducing democracy to theatre. Another paradox of neoliberalism is that universal competition relies upon universal quantification and comparison. The result is that workers, job-seekers and public services of every kind are subject to a pettifoggery, stifling regime of assessment and monitoring, designed to identify the winners and punish the losers. The doctrine that Von Mises proposed would free us from the bureaucratic nightmare of central planning has instead created one.

Neoliberalism was not conceived as a self-serving racket, but it rapidly became one. Economic growth has been markedly slower in the neoliberal era (since 1980 in Britain and the US) than it was in the preceding decades; but not for the very rich. Inequality in the distribution of both income and wealth, after 60 years of decline, rose rapidly in this era, due to the smashing of trade unions, tax reductions, rising rents, privatisation and deregulation. The privatisation or marketisation of public services such as energy, water, trains, health, education, roads and prisons has enabled corporations to set up tollbooths in front of essential assets and charge rent, either to citizens or to government, for their use. Rent is another term for unearned income. When you pay an inflated price for a train ticket, only part

of the fare compensates the operators for the money they spend on fuel, wages, rolling stock and other outlays. The rest reflects the fact that they have you over a barrel. Those who own and run the UK's privatised or semi-privatised services make stupendous fortunes by investing little and charging much. In Russia and as well as in India, oligarchs acquired state assets through fire sales. In Mexico, Carlos Slim was granted control of almost all landline and mobile phone services and soon became the world's richest man. Like rent, interest also is unearned income that accrues without any effort. As the poor become poorer and the rich become richer, the rich acquire increasing control over another crucial asset: money. Interest payments, overwhelmingly, are a transfer of money from the poor to the rich. As property prices and the withdrawal of state funding load people with debt (think of the switch from student grants to student loans), the banks and their executives clean up. It is also argued that the past four decades have been characterised by a transfer of wealth not only from the poor to the rich, but within the ranks of the wealthy: from those who make their money by producing new goods or services to those who make their money by controlling existing assets and harvesting rent, interest or capital gains. Earned income has been supplanted by unearned income.

Neoliberal policies are everywhere beset by market failures. Not only are the banks too big to fail, but so are the corporations now charged with delivering public services. Staunch advocates of neoliberalism forgot that vital national services cannot be allowed to collapse, which means that competition cannot run its course. Business takes the profits, the state keeps the risk. The greater the failure, the more extreme the ideology becomes. Governments use neoliberal crises as both excuse and opportunity to cut taxes, privatise remaining public services, rip holes in the social safety net, deregulate corporations and re-regulate citizens. The self-hating state now sinks its teeth into every organ of the public sector. Perhaps the most dangerous impact of neoliberalism is not the economic crises it has caused, but the political crisis. As the domain of the state is reduced, our ability to change the course of our lives through voting also contracts. Instead, neoliberal theory asserts, people can exercise choice through spending. But some have more to spend than others: in the great consumer or shareholder democracy, votes are not equally distributed. The result is a disempowerment

of the poor and middle. As parties of the right and former left adopt similar neoliberal policies, disempowerment turns to disenfranchisement. Large numbers of people have been shed from politics. Fascists movements build their base not from the politically active but the politically inactive, the „losers“ who feel, often correctly, they have no voice or role to play in the political establishment”. When political debate no longer speaks to us, people become responsive instead to slogans, symbols and sensation; facts and arguments appear irrelevant.

The words used by neoliberalism often conceal more than they elucidate. “The market” sounds like a natural system that might bear upon us equally, like gravity or atmospheric pressure. But it is fraught with power relations. What “the market wants” tends to mean what corporations and their bosses want. “Investment”, means two quite different things. One is the funding of productive and socially useful activities, the other is the purchase of existing assets to milk them for rent, interest, dividends and capital gains. Using the same word for different activities “camouflages the sources of wealth”, leading us to confuse wealth extraction with wealth creation. A century ago, the nouveau riche were disparaged by those who had inherited their money. Entrepreneurs sought social acceptance by passing themselves off as rentiers. Today, the relationship has been reversed: the rentiers and inheritors style themselves entrepreneurs. They claim to have earned their unearned income. These anonymities and confusions mesh with the namelessness and placelessness of modern capitalism: the franchise model which ensures that workers do not know for whom they toil; the companies registered through a network of offshore secrecy regimes so complex that even the police cannot discover the beneficial owners; the tax arrangements that bamboozle governments; the financial products no one understands. The anonymity of neoliberalism is fiercely guarded. Those who are influenced by Hayek, Mises and Friedman tend to reject the term, maintaining – with some justice – that it is used today only pejoratively. But they offer us no substitute. Some describe themselves as classical liberals or libertarians, but these descriptions are both misleading and curiously self-effacing, as they suggest that there is nothing novel about *The Road to Serfdom*, *Bureaucracy* or Friedman’s classic work, *Capitalism and Freedom*. For all that, there is something admirable about the neoliberal project, at least

in its early stages. It was a distinctive, innovative philosophy promoted by a coherent network of thinkers and activists with a clear plan of action. It was patient and persistent. The Road to Serfdom became the path to power.

Neoliberalism triumph also reflects the failure of the left. When laissez-faire economics led to catastrophe in 1929, Keynes devised a comprehensive economic theory to replace it. When Keynesian demand management hit the buffers in the 70s, there was an alternative ready. But when neoliberalism fell apart in 2008 there was nothing. The left and centre have produced no new general framework of economic thought for 80 years. Every invocation of Lord Keynes is an admission of failure. To propose Keynesian solutions to the crises of the 21st century is to ignore three obvious problems. It is hard to mobilise people around old ideas; the flaws exposed in the 70s have not gone away; and, most importantly, they have nothing to say about our gravest predicament: the environmental crisis. Keynesianism works by stimulating consumer demand to promote economic growth. Consumer demand and economic growth are the motors of environmental destruction. What the history of both Keynesianism and neoliberalism show is that it's not enough to oppose a broken system. A coherent alternative has to be proposed.

NEOLIBERALISM IN INDIA

Indian economic panorama was originally architected on the lines of the ideological lushness of Pandit Jawaharlal Nehru and his likes deriving much of its life blood from the essence of both socialism as well as capitalism, quite a surreal amalgamation that seemed impossible. It can't be shot down with ideological justifications if one doubts whether it was an all out effort to thwart or nip any future attempts at colonising the nation on the basis of any imported economic, social or political ideological junk as happened prior. The economy thrived and crawled forward with the backing of these novel ideologies though the giant leap forward was missing at every front as the total economy was still recovering, from the shackles of its colonial past. 1980 witnessed unreserved yet reasonably sound performance of the economy on many fronts, solely based on the mixed economic agendas and frameworks pursued by the architects and think tanks of independent India.

However the whole narrative took a bumpy ride down South with the economic slowdown of the 1990s that presumably forced the economy and its policy makers down the path of allegiance to the dictums of the Washington brewed and served structural readjustment concoction prescribed by the IMF and its kind. Following the Balance of Payment crisis that India faced in the 1990s a bailout strategy christened as New Economic Policy (NEP) was rolled out with the blessings of IMF and World Bank. The package delivered a \$500 billion bailout to the Indian government, demanding a set of changes and reforms to the status quo that the policy makers has maintained with regard to the economy since the inception of the first government of independent India. These conditioned reforms or changes included removal of all governmental controls over the economy, progressive reduction of all tariffs, duties and taxes, breaking down of all state sponsored monopolies, encouraging of private sector enterprise and competition, as well as deregulation and opening up of the economy for foreign capital, enterprises, and technology in the form of FDIs and FIIs. In essence the bailout was granted to force upon the government to gradually liberalise, privatise and globalise one of the fastest growing, consumer market in the world itself. This strategy has brought in with itself a new socio-economic-political strategy called Neoliberalism which essentially watered down the ideological paradigms of Indian diaspora which governed much of the political, social and economic discourse making every Indian a passive neoliberal.

India's 7% GDP annual growth has been noted to be the best indicator of its prosperity, having claimed supporters of neoliberalism and mobilisation of foreign capital that, the integration into the global market has been greatly beneficial in reducing poverty in the country (Girdner and Siddiqui, 2008). However, India has also been reported to be one of the states with the highest income inequality in the world, as well as persisting poverty for the majority of its population (World Bank, 2009), trends that have been associated by many with the implementation of the neoliberal New Economic Policy (NEP) in 1991. This, alongside other neoliberal experiences, has exacerbated the debate on neoliberalism and its effects on development and its link with inequality, particularly in developing countries. Whereas advocates have argued that neoliberal policies are the

best way of increasing everyone's well-being, many critics have highlighted how these scholars have failed to see that neoliberalism, being a laboratory project, only benefits elites. It is often argued that neoliberalism creates more losers than winners as it impoverishes the less well-off, the majority, and enriches the business elites, the minority. It is also argued that these elites are the thinkers and promoters of the entire "neoliberal project", with the sole intention of increasing their economic and social power. According to international organisations such as the IMF or the WTO, the implementation of neoliberal policies by the Indian government was the best way to create faster economic growth and therefore greater social equity (Vakulabharanam and Motiram, 2016). These external pressures and a huge debt-crisis in the late 1980s resulted in the implementation of the New Economic Policy in 1991. The policy meant the liberalisation of both the Export-Import policy and the rules for foreign and domestic investment and a reduction of the government's role and expenditure on agriculture and the industrial sector, consequently allowing the privatisation of capital (Aerthayil, 2008). The results during the next two decades did not meet the positive expectations, and since its economic liberalisation and introduction into the global market, the evidence suggests increasing inequality in the country as well as persistent poverty, at least for the majority.

72% of the population in India is rural, directly or indirectly depending on agrarian economies (Mirza and Ahmad, 2005). Aerthayil (2008) highlights five ways in which neoliberal policies have been the main cause of the current agrarian crisis, and undoubtedly the agrarian population is the loser of neoliberalism in the country. After 1991, and in accordance with the WTO regulations, all restrictions to imports of agriculture products were removed, causing the crash of prices. At the same time, following the neoliberal idea of minimum government intervention, the Indian government drastically reduced both the different types of subsidies to agriculture, thus making it less profitable, and its investment and expenditure, which decreased from 14.55% in 1986-1990 to 6% in 1995-2000 (Posani, 2009). In addition, in order to favour industrialization and promote exports as part of the neoliberal globalisation trends, the government created Special Economic Zones (since 2005), which have meant utilising fertile land for industrial purposes. Moreover, financial liberalisation caused a change in the lending

arrangement of commercial banks, resulting in a lack of easy and low-cost loans to agriculture. As a result of financial liberalisation the exploitation of the poor in the informal credit market has intensified (Ramachandran and Swaminathan, 2004) and it has led to “vulnerability to capital flight, currency instability, speculation rather than production, stagnation, inequality and the obstruction of progressive politics.” (Girdner and Siddiqui, 2008: 5).

Therefore, small and medium farmers have been facing for three decades a situation in which farming has become unprofitable and consequently their standard of living has worsened to unimaginable extents. After the NEP, growth rates of agriculture and rural employment started to show a steady decline, being -2% in the period 2000-2001 compared to 3.08% in 1980-1990, and 0.66% between 1996-2000 compared to 2.07% in 1977-1984, respectively (Posani, 2009; Aerthayil, 2008). In addition, in 2005 the National Sample Survey report disclosed that, given the option, nearly 40% of farmers would like to quit farming (Negi, 2014: 12). Of more concern has been the huge number of suicides among farmers. As a result of heavy debts, stagnant crop prices and rising input prices (Girdner and Kalim, 2008), more than 250 farmers have killed themselves since 1995, which according to P. Sainath has been “the largest recorded rate of suicides in human history” (The Huffington Post, 2012)

Moreover, India’s case perfectly exemplifies Lipton’s (1977) theory known as “Urban bias”, which explains that despite the fact that the majority of the population in developing countries relies on agriculture, governments have directed their investment and policies towards urbanisation and industrialisation, thus failing to address the needs of the lower classes and perpetuating poverty. Given that in order to fit in with neoliberal policies the Indian government has done so, clearly shown by the creation of Special Economic Zones in fertile areas, the country has witnessed the largest displacement in human history from rural regions to urban centres (Negi, 2014: 5). This rural exodus has directly been associated with the growth of slums in overpopulated cities, and nowadays more than half of the population in India live in slums (2014). For instance, Mumbai, the most populated city, is said to be the least homogenous urban space in the country,

with 60% of the population living in slums, but occupying only 6% of the city's territory (Banerjee-Guha, 2011).

And whereas six million of slum dwellers survive with less than two dollars per day in the Byculla district, Mumbai, (Watkins, 2013), the world's richest home is located within a few kilometres. Antilla is a 27th floor property, valued at \$1 billion and owned by Mukesh Ambani, Indian's richest person, ranked 36th on Forbes list of global billionaires with a net worth of \$21.4bn (Forbes, 2016). He is also the Chairman of Reliance Industry, a global energy conglomerate for which the government had decided to acquire 10.120ha of land near Mumbai. Due to public pressure, as that size was almost one-third area of the city, the government ended up reducing it to 5000ha (Aerthayil, 2008). Alongside Ambani, nowadays there are other forty-three billionaires in the country, a huge number compared to the two billionaires that existed in pre-neoliberal India. Their total net worth, which accounts a total of 12% of the GDP (while agriculture, which serves as the principal source of income for more than half of the population, accounts for the 13.7% (Negi, 2014)) is \$176bn. This would be enough to eliminate absolute poverty in the country twice over (Watkins, 2013).

CONCLUSION

These thought-provoking figures and examples have led to an increase in the number of scholars arguing that neoliberalism must be understood in terms of a laboratory project forced upon the economy via mobilization of foreign capital. It is also added that, particularly in developing countries, Western states and institutions have played an important role in implementing neoliberal agendas of such a grand scale and scheme. In the case of India, as Ahmed (2009) emphasises, neoliberalism was thrust in by the IMF, WB and WTO but it was also promoted and supported by a new breed of Indian entrepreneurs via sourcing of foreign capital in the form of FDI and FII. When the country started industrialising after independence (1947), and the industrial and the service sector grew in the urban areas, there was a gradual shift in economic power between regions (urban-rural) and sectors of the economy. These new entrepreneurs, with economic interests in non-agricultural sectors who did not either benefit much from agricultural subsidies, developed a mind-set against state

interventionism and consequently became supporters of neoliberal policies (Ahmed, Kundu and Peet, 2011: 35). The shift in India's economic base from rural to urban allowed this urban elite, despite being the minority, to exercise greater power over India's economic policy formulation (Ahmed, Kundu and Peet, 2011: 36-37).

Therefore, neoliberalism can be argued to be a laboratory project because prior to the 1990s in India the rural elite, based on caste, was still the one holding most of the power and benefiting agriculture (Beri and Schneickert, 2016). However, as it has been said, between the 1950s and 1980s, particularly after the fall of the Soviet Union, there was a sharp rise in the number of "entrepreneurs" in the petrol, oil, steel and software industries (among others) (Moran, 2011), represented by the Confederation of Indian Industries (CII). In the 1990s, the all thankful to the NEP, this class finally achieved a position of prominence, given that "in terms of influence on the state, they surpassed the traditional industrial bourgeoisie, the Tatas and the Birlas" (Ahmed, Kundu and Peet, 2011: 54). They saw better opportunities arising with the closer integration with global capitalism (Siddiqui, 2012) and, with the support of foreign business collaborations, the CII became a prominent actor exercising influence on the government in order to get policies which would be favourable to foreign and domestic capital (Ahmed, Kundu and Peet, 2011: 38). Through the NEP, this capitalist class accomplished the deregulation of business, trade liberalisation, allowing entry of foreign capital to own business in India, tax cuts and other incentives and benefits for their businesses which made them wealthier and more powerful (Jas, 2012).

Neoliberalism, which got planted, evolved and adapted to the Indian socio, economic and political scenario via the advent of foreign capital in the form of the New Economic Policy (1991), is a project thought and promoted by an elite class which is the only one that benefits from it. Although neoliberalism is trying to be sold by Western states, institutions and elites as the solution to inequality, poverty and development, it is important to analyse this and demonstrate that the reality differs to a great extent. Neoliberalism in India, far from alleviating poverty and encouraging sustainable development, has only widened the inequality gap, created a

staggering number of losers, roughly the entire agrarian population and majority of the country. In return, the winning minority, the business elites who promoted the country's economic liberalisation in the first place, knew that it would increase their wealth and social and political influence. India is in need of a new ideological narrative that could replace the neoliberal tendencies which would gradually manifest itself into majoritarian supremacy in the near future.

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AN EVALUATION OF ROLE OF FDI IN THE SERVICE SECTOR OF INDIA

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ABSTRACT

Service sector has emerged as the largest and fastest growing sector in the global economy in the last two decades, providing more than 60 percent of global output and in many countries an even larger share of employment. There has been a marked shift of FDI away from manufacturing sector towards service sector. The service sector in India has played a key role in the growth story of Indian economy. The tertiary sector has experienced unexpected growth the last two decades. Service-led growth is a common phenomenon in the theory of economic growth. But traditionally, the service-led growth has been associated with the tertiary phase of growth, where a major part of the demand for service comes from the developed manufacturing sector. But India has been an altogether different story. The growth of Indian service sector is largely independent of the manufacturing sector. India, in its process of growth has been able to bypass the service sector in India's GDP but has also attracted significant foreign investment flows, contributed significantly to exports as well as provided large scale employment. India's service sector covers a wide range of activities such as trade, hotel and restaurants, transport, storage and communication, financing, insurance real estate, business services, social services and services associated with construction. The service sector has been the most dynamic sector of Indian economy and it contributes around 55 percent of GDP.

Keywords: Service Sector, Foreign Direct Investment, Sectors

INTRODUCTION

India has been a major recipient of FDI Inflows in the majority of sectors. There has been an unnerving up- surge in the economic development

of the country. In the post liberalisation era, India is known to have attracted a large amount of Foreign Direct Investment. Foreign Direct Investment in India is allowed freely in most of the sectors, except a few, where specific guidelines are given for foreign direct investment beyond a limit.

After liberalization its role has changed significantly. Progressive liberalization of FDI policy has strengthened investor confidence with opening up of new sectors like integrated township, tea plantation etc. India's capacity as a host nation in attracting FDI has been enhanced during the post reforms period. Earlier the amount of FDI was low conforming to some selected sectors, but now the inflow of FDI has grown tremendously and almost in all the sectors of the economy. Revision of FDI policy during 2005 opened the few sectors for the foreign investors to start their business. Since the last several years India has been receiving substantial Foreign Investment in various sectors. Indian sectors attracting highest FDI inflows are service, electrical equipments, transportation industries, telecommunication, fuel and food processing industries.

OBJECTIVES OF THE STUDY

- To analyse the trends and patterns of FDI inflows in service sector of India

RESEARCH METHODOLOGY

The study is based on secondary data. The data have been collected from various sources like World Investment Report, SIA Newsletter, various bulletin of RBI, Economic Survey and from websites of World Bank etc. The study used time series data and the relevant data have been collected for the period 1991-2015.

TRENDS IN SERVICE SECTOR

Service sector puts the economy on a proper glide path. It is one of most important drivers of sustained economic growth and development by contributing 55% to GDP. The growth of service sector is closely linked to the FDI inflows into this sector and the role of transnational firms. While the ambiguity in classifying the different activities under the services sector continues, the combined FDI share of financial and non-financial services,

construction development, telecommunications, computer hardware and software and hotel and tourism can be taken as a rough estimate of the FDI share of services, though it could include some non-service elements.

Service sector is receiving major share in FDI inflows with a steep rise from 2005 onwards. Since the onset of liberalization, the country experienced a high jump in the FDI inflows in service sector because of tremendous growth potential that it possesses. The government has taken many policy initiatives to liberalize the FDI policy for the service sector. These include liberalizing the policy on foreign investment for companies operating in the broadcasting sector like increasing the foreign investment limit from 49 percent to 74 percent in teleports and direct to home and cable networks and permitting FI upto 74 percent in mobile TV and amendment of the existing policy on FDI in single- brand retail trading.

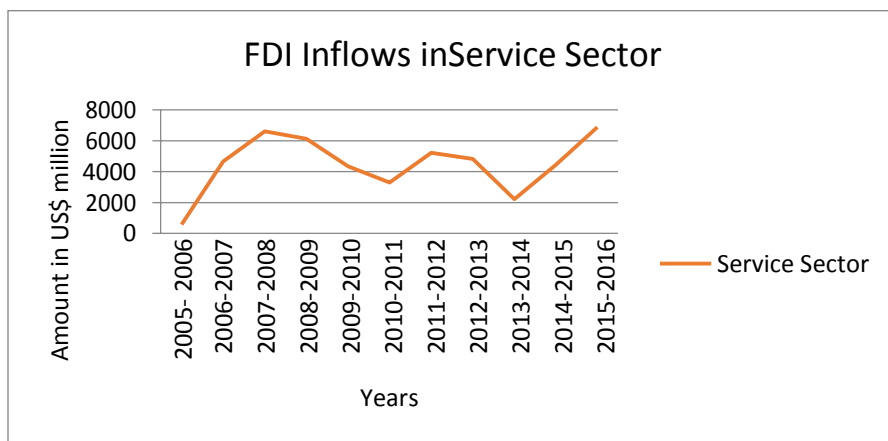
Table 1:
Relation between FDI Equity Inflows and Service sector share in GDP (%)

Financial Year	FDI Equity Inflows	Service sector share in GDP(%)
2001-2002	4065	50.4
2002-2003	2705	50
2003-2004	2188	50.7
2004-2005	3219	50.7
2005-2006	5540	51.7
2006-2007	12492	54.1
2007-2008	24575	55.1
2008-2009	31396	61.2
2009-2010	25834	62.4
2010-2011	21383	63
2011-2012	35121	63.3
2012-2013	22423	64.4
2013-2014	24299	58.8
2014-2015	30931	59.9

Source: FDI Factsheet

The data shows FDI Equity Inflows and GDP (service sector) for the period 2001-2015. To estimate whether the relation between the concerned variables are positive or not, we have used correlation analyses where the independent variable and dependent variables are FDI Equity Inflows and share of service sector in GDP respectively. Correlation helps to measure the strength and direction of a linear association between two variables. From analyses it is shown that the correlation coefficient is 0.88 percent which is positively related. The $R^2 = 0.778$ indicates that 77 percent of the changes that occur in Service sector share in GDP is accounted by FDI Equity Inflows.

Figure 1
FDI Inflows in Service sector



Source: RBI Annual Report

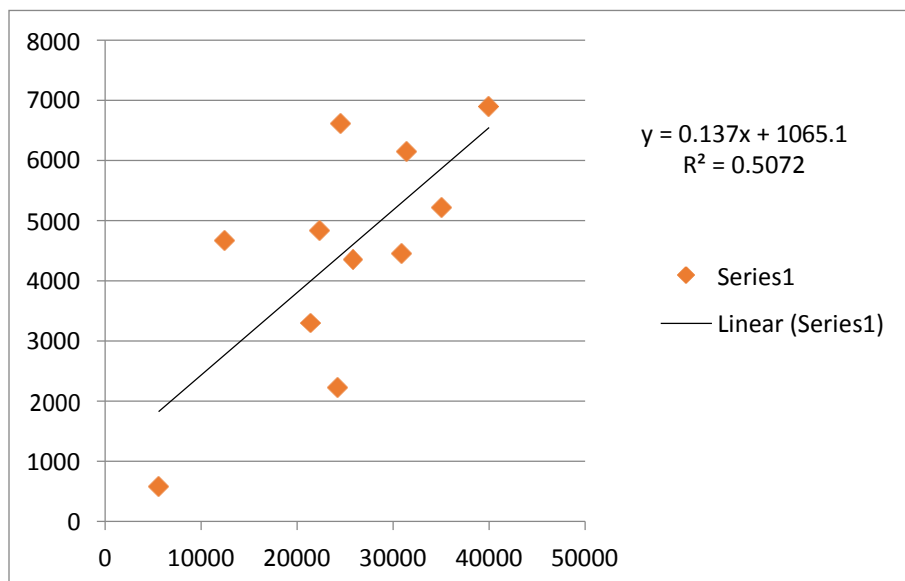
Service sector shows an increasing trend since 2005. In India FDI inflows in service sector are heavily concentrated around two major cities- Mumbai and Delhi. The leading Indian companies which received FDI inflows in services sector are Cairn (I) Ltd, DSP Merrill Lynch Ltd, AAA Global Ventures Pvt. Ltd, Kappa Industries Ltd, Citi Financial Consumer Finance (I) Ltd, Blue Dart Express Ltd, Vyasa Bank Ltd, CRISIL Ltd, Associates India Holding Co. Pvt. Ltd and Housing Development Finance Corp. Ltd. Mauritius is the top nation to invest in service sector followed by UK and Singapore.

Table 2
Relation between FDI Equity Inflows and FDI Inflows in Service sector (Amount in US\$ million)

Year	FDI Equity Inflows in India	FDI inflows in Service sector
2005-2006	5540	581
2006-2007	12492	4664
2007-2008	24575	6615
2008-2009	31396	6138
2009-2010	25834	4353
2010-2011	21383	3297
2011-2012	35121	5216
2012-2013	22423	4833
2013-2014	24299	2225
2014-2015	30931	4443
2015-2016	40001	6889

Source: DIPP

Figure 2
Relation between Total FDI equity inflows and FDI inflows in Service sector



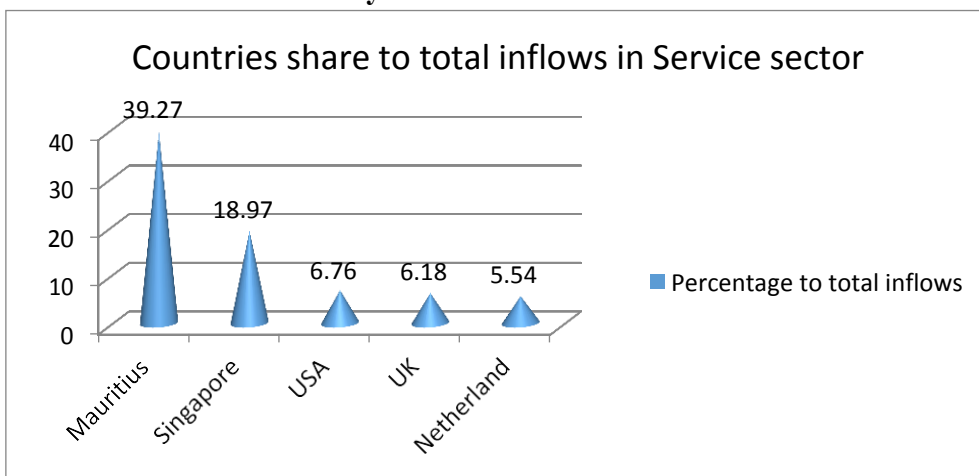
Correlation was carried out to find out the relationship between FDI Inflows in Service sector and FDI Equity Inflows .The figure exhibits the linear relationship between the variables. The correlation value is .712 which indicates that as FDI inflows in service sector increases, the total FDI Equity inflow also increases. The value of coefficient of determination indicates that 50 % of changes that occur in total FDI equity inflow are accounted by inflows in service sector.

Table 3
Share of Top Five Countries FDI Inflow for Service sector
(2000-2016)

Sl.No	Countries	Amount of FDI inflows (US\$million)
1	Mauritius	18921.59
2	Singapore	9141.59
3	USA	3258.08
4	UK	2979.73
5	Netherland	2667.39

Source: FDI factsheet

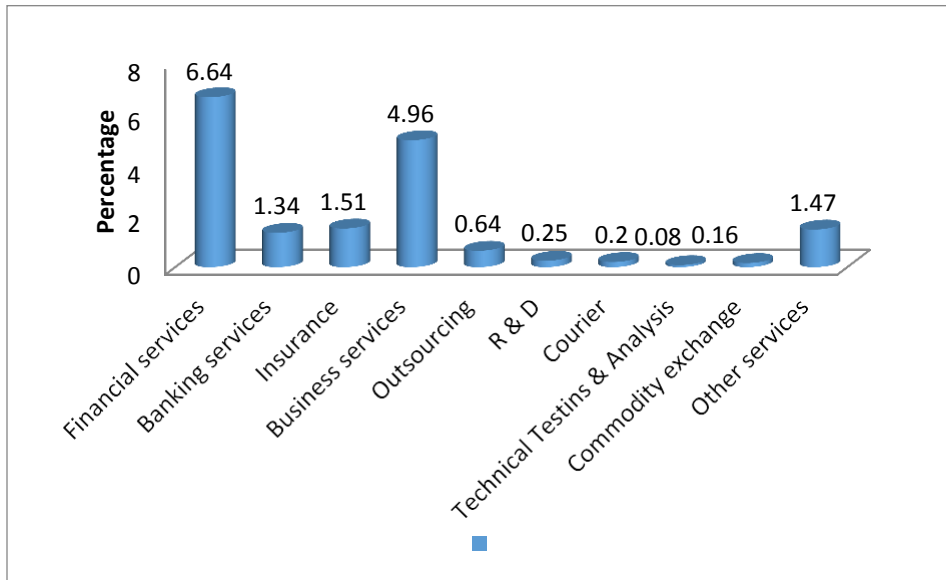
Figure 3
Country's Share in Service sector



Source: FDI factsheet

Service sector has ranked among top ten sectors attracting FDI inflows since 1991. The sub-sectors comprising Financial and Non-Financial, Insurance, Banking, Research and Development etc .Of these financial service accounted for major share.

Figure 4
FDI Inflows in Sub-Sectors of Service sector (%)

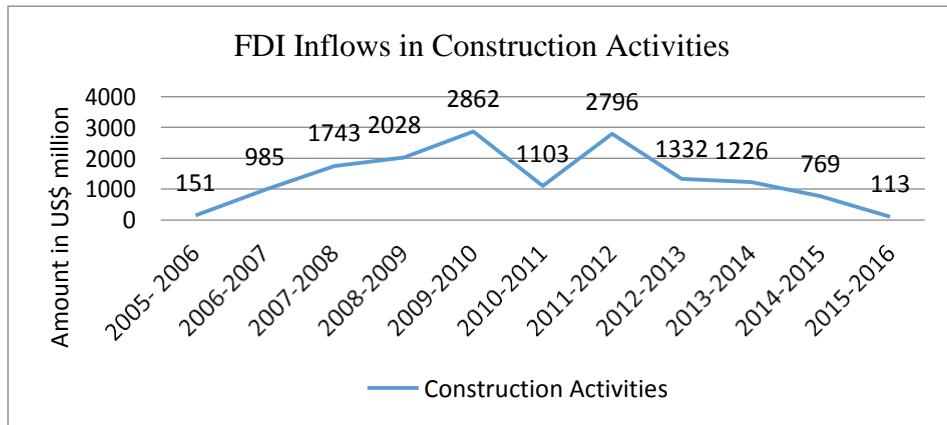


Source: SIA newsletter

TRENDS IN CONSTRUCTION ACTIVITIES

This sector includes construction development project viz. housing, commercial premises, resorts, educational institutions, recreational facilities, township etc.

Figure 5
FDI Inflows in Construction sector



Source: SIA newsletter

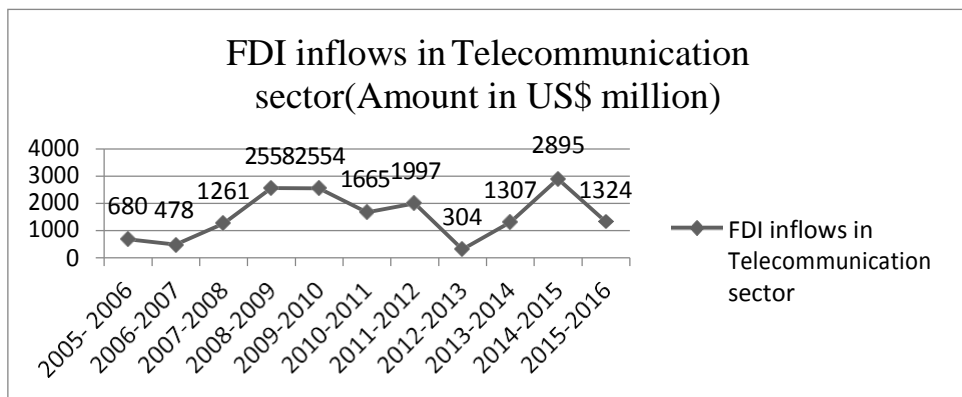
Major investment in construction activities is received from Mauritius. The top five Indian companies which received FDI inflows in this sector are W.S Electric Ltd, Carmen Builders & Construction Pvt. Ltd, Caitlin Builders & Developers Pvt. Ltd, W.S. Electric Ltd, and PVP Ventures Pvt. Ltd. This sector shows a steep rise in FDI inflow from 2005 onwards, and reaches high in the period 2009-2010. But after 2011-2012 the sector shows a sharp decline in FDI as the real estate industry was facing huge slowdown for last 2-3 years. Although 100 percent FDI was allowed in townships, housing and built-up infrastructure since 2005, the government had imposed certain conditions. Even as major plans and schemes have been announced by the government to build infrastructure and push construction activity across the country in a bid to revive the economic activity, there is little that has happened on the ground. Over the last two years construction activities have slowed considerably and even the equipment was lying idle in many cases. Recently government relaxed FDI norms in this sector by removing two major conditions related to minimum built-up area as well as capital requirement.

TRENDS IN TELECOMMUNICATION SECTOR

Telecom sector comprises radio paging, cellular mobiles and basic telephone services. India has more than 125 million telephone networks, which is one of the largest communication networks across the globe. From

1991-2005, there was steady flow in this sector but from 2005 onwards, there is exponential rise in FDI inflows. For the period 1991-99 it added US \$1211.64 million and for the period 2000-14 it added US \$ 16634 million to the respective FDI inflows.. A number of telecom service providers are working in both the private and public sector. Mauritius topped the list in investing this sector with almost \$12billion over the last 15 years followed by Russia, USA etc. Within India New Delhi attracted highest percentage of FDI inflows.

Figure 6
FDI Inflows in Telecom sector



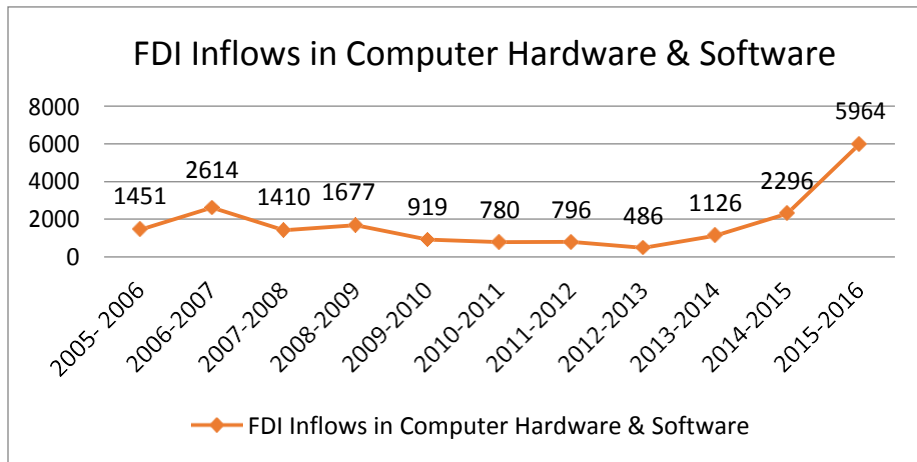
Government allowed 100 percent FDI in Telecom sector .Earlier the limit was 74 percent where 49 percent was done through automatic route and rest required nod from FIPB. In the last 15 years, Telecom sector received a total of \$18.4 billion as FDI equity inflow, making it fourth highest sector attracting foreign investments. But it reaches all time low in 2012-2013. The government of India has taken measures to ensure pro-active and positive policies to boost this sector. Main companies in this sector include Aircel Ltd, Bharti Telecom Ltd, and Flextronics Software Systems Ltd etc.

TRENDS IN COMPUTER HARDWARE & SOFTWARE

The computer hardware and software industry has witnessed a high growth during 2005-2016. Investment on Computer software and hardware sector was not calculated independently till the year 2003 and was under the head „electrical“. It has been taken as a separate industry since the year 2004.

Establishment of software technology parks, regulatory reforms by the Indian government, the growing Indian market and availability of skilled work force have been important factors in boosting FDI inflows to this sector in India.

Figure 7
Amount of FDI Inflows in Computer Hardware & Software



Source: SIA Newsletter

Hardware industry includes personal computers, servers , laptops and software industry which includes e-commerce activities enjoy the 100 percent FDI permission under the automatic route. High growth prospects in terms of increased consumption in India as well as increasing demand for IT exports are expected to lead to more FDI in this sector in coming years. Mauritius remained at the top among the investing countries in India in this Sector. Other major investing countries in this sector are USA and Singapore. The top Indian companies which received FDI inflows in this sector are Flex Solution ltd, Tata Consultancy Services Ltd, Infracsoft Technologies Ltd, Mphasis BFL Ltd, Flex Solutions Ltd, Digital Global Soft Ltd, India Bulls Financials Services Pvt. Ltd, IFLEX Solutions Ltd and Unitech Reality Projects Ltd. Among Indian locations Mumbai, Bangalore and Chennai received more inflows.

TRENDS IN TRADING SECTOR

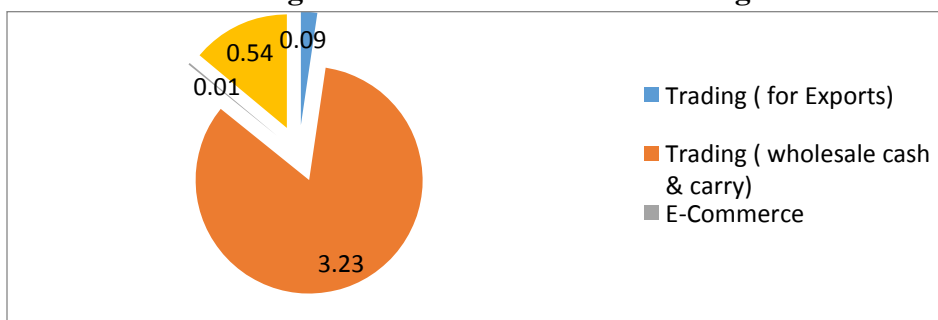
Trading sector received US\$ 201.48 million of total FDI inflows during 1991-1999 & US\$ 11872.47 million during 2000-2016. Trading sector shows a trailing investment pattern up to 2005 but there is an exponential rise in inflows from 2006 onwards. Major investment inflows came from Mauritius, Singapore, Netherland, Japan and Germany etc. Investment in India is heavily concentrated on three major cities viz. Mumbai, Bangalore, and New Delhi.

Table 4
Sub-sectors of FDI Equity Inflows in Trading Sector
 (Amount in US\$ million)

Sub- sectors	Cumulative FDI Inflows(2000-2015)
Trading (for Exports)	242.29
Trading (wholesale cash & carry)	8994.28
E-Commerce	37.1
Trading(misc.)	1494.15

Source: SIA Newsletter

Figure 8
Percentage Share of Subsectors in Trading Sector

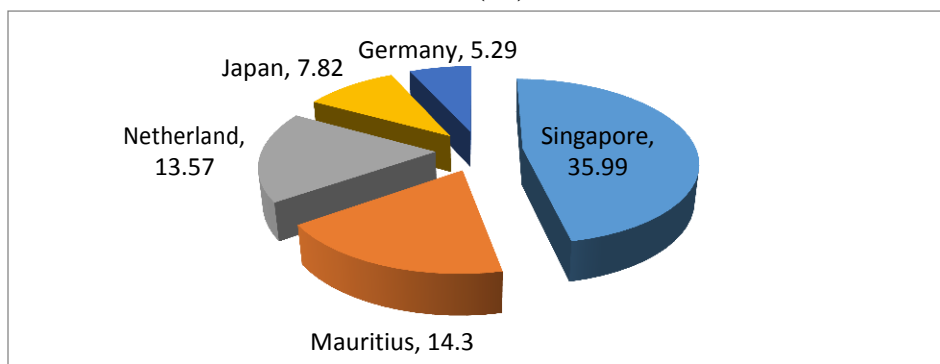


Source: SIA Newsletter

The top five Indian companies which received FDI inflows are Multi Commodity Exchanges of India Ltd, Anchor Electricals, Multi Commodity

Exchanges of India Ltd, Metro Cash and Carry India Pvt. Ltd and Essilor India Pvt. Ltd.

Figure 9
Share of Top Five Countries Attracting FDI Inflows in Trading Sector(%)



Source: FDI factsheet 2016

TRENDS IN HOTEL & TOURISM

The Hotel & Tourism industry is growing faster for the past few years, bringing in large revenues through foreign as well as domestic tourists in various parts of the country. 100% FDI is allowed in this sector under automatic route.

Table 5
FDI Equity Inflows in Hotel & Tourism Sector
(Amount in US\$ milion)

Sector	1991-1999	2000-2016
Hotel & Tourism	91.13	9227.33

Source: RBI Data Bank

Outbound tourists from India have also increased in recent years, with more and more Indians undertaking for- eign trips. Many International tour operators have started operations from India tap the growing market of foreign tours from India. This has also led to increased Foreign Direct Investments (FDI) in the hotels and tourism industry in India.

Table 6
Share of Top Five Countries Attracting FDI Inflows for
Hotel & Tourism Sector

Countries	Amount in US\$ million	Percentage to Total Inflows
Mauritius	4820.77	73.86
Singapore	539.27	8.26
Cyprus	292.7	4.48
USA	160.93	2.47
Netherland	139.99	2.14

Source: FDI Factsheet 2016

Table 7
FDI Inflows in Subsectors of Hotel & Tourism Sector

Subsectors	Amount in US\$ million	Percentage share
Hotels & Restaurants	6068.34	3.22
Tourism	373.69	.20
Others(Hotel & Tourism)	84.86	.05

Source: FDI factsheet

The main companies receiving inflows are Blue Ridge Hotels Pvt Ltd, Malsi Estate, Coffee Day Resort Pvt Ltd, Asian Hotels(North) Ltd, Fleur Hotels Pvt Ltd etc.

CONCLUSION

The service sector specific policy guidelines play an important role in the determination of FDI inflow in India. The rapid inflow of FDI in the service is a testimony of the fact that FDI can play important role in the growth of different industries and sector. Manufacturing sector in India could not reap the benefit of FDI may be because India lacks the necessary absorbing capacity. Though, the role of FDI in India's economic growth cannot be ruled out, but it failed to create growth in the manufacturing sector, where it was needed most. Moreover, a strong manufacturing sector is of utmost importance for the sustainable growth of service sector.

During 1980s, Indian government adopted a liberal policy towards FDI, especially in high technology areas and exports and it was then that FDI friendly environment was created. Again a host of incentives, exemptions and relaxations in the degree of flexibility concerning foreign ownership adopted during 1990s gave a major boost to FDI inflows. The period after 1991 is termed as post liberalisation period during which not only the quantum of FDI to India escalated but the sectoral composition of FDI also underwent tremendous change. Revision of foreign investment policy during 2005 has invited FDI in few sectors like construction, housing & real estate. The period 2000-2014 reveals that India receives a significant share of FDI inflows compared to the period 1991- 1999.

India's services sector during the last few years and has been globally recognized for its high growth and development. This sector has been growing at an annual growth rate of about 28% during the last 5 years. India's service sector contributes more than 55 per cent of GDP, making it the most formidable component of the country's economy.

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TRENDS AND PATTERNS OF FDI INFLOWS IN INDIA

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ABSTRACT

Economic Integration plays a vital role in Economic Development of any country. FDI is a major instrument of attracting International Economic Integration. Foreign Investments plays a pivotal role in developing and sustaining our economy. Investments can be done in many ways. Foreign direct investment (FDI) has proved to be resilient during financial crises. Foreign Direct Investment (FDI) is crucial for development. It is widely recognized that foreign direct investment (FDI) produces economic benefits to the recipient countries by providing capital, foreign exchange, technology and by enhancing competition and access to foreign markets. India is basically a capital deficient country. So they encourage FDI. In India FDI means an Investment by a non - resident entity or a person resident outside India in the capital of an Indian company under Schedule 1 of Foreign Exchange Management Regulations 2000. It is a major source of non-debt financial sources. The FDI scenario in India is currently witnessing a gradual shift with liberalized reforms over last few years and an attractive investment climate making a positive impact on the inflow. With a steady increase in volume of FDI, India has attracted more than 95 countries till 2015 (29 countries in 1991) across the globe to invest in India making it upstages US in the list of top investment destinations in the world in the UNCTAD WIP Report. Investment into India could mostly follow the automatic route with no licenses or permissions required Investment in sectors that have caps such as single brand retail, private banking, insurance, stock exchange needs to be approved by Foreign Investment Promotion Board.

Keywords : Foreign Direct Investment, inflow, reforms

INTRODUCTION

Historical background of FDI India can be traced back with the establishment of East India Company of Britain. British capital came to India during the colonial era of Britain in India. After Second World War, Japanese companies entered Indian market and enhanced their trade with India, yet UK remained the most dominant investor in India. Further after independence issues relating to foreign capital, operations of MNCs gained attention of the policy makers. Keeping in mind the national interest the policy makers designed the FDI policy which aims FDI as a medium for acquiring advanced technology and to mobilize foreign exchange reserves. With time and as per economic and political regimes, there have been changes in FDI policy too. The Industrial Policy of 1965 allowed MNCs to venture through technical collaboration in India. Therefore, the government adopted a liberal attitude by allowing more frequent equity.

In the critical face of Indian economy the government of India with the help of World Bank and IMF introduced the macro-economic stabilization and structural adjustment program. As a result of these reforms India open its door to FDI inflows and adopted a more liberal foreign policy in order to restore the confidence of foreign investors. Further, under the new foreign investment policy Government of India constituted FIPB (Foreign Investment Promotion Board) whose main function was to invite and facilitate foreign investment.

SIGNIFICANCE OF THE STUDY

FDI is an important indicator of economic growth and stimulator of competitiveness .FDI has been as a dominant determinant to achieve high rate of growth because it brings in scarce capital resource, raise technological capability and increase efficiency through enhancing domestic competition. The study attempts to analyze the trends and patterns of FDI inflows in India. The study also examines the share of FDI in service sector and its role in India for the period 2000-2015. The period under study is important because the service sector has attracted a significant portion of total FDI in Indian economy which is visible especially in the second decade (2000-2015) of economic reforms in India. The role of FDI is increasingly becoming significant in the Indian economy with the transition of FDI policy from a

restrictive phase of seventies and early eighties to a relatively liberal phase of nineties.

OBJECTIVES OF THE STUDY

- To trace out the trends and patterns of FDI inflows in India

RESEARCH METHODOLOGY

The study is based on secondary data. The required data have been collected from various sources that is; World Investment Report , SIA Newsletter, various bulletin of RBI, Economic Survey and from websites of World Bank etc. It is a time series data and the relevant data have been collected for the period 1991-2015.

TRENDS AND PATTERN OF FDI INFLOWS - AN OVERVIEW

One of the most prominent and striking feature of today's globalized world is the exponential growth of FDI in both developed and developing countries. In the last two decades the pace of FDI flows are rising faster than almost all other indicators of economic activity worldwide. Developing countries, in particular, considered FDI as the safest type of external finance as it not only supplement domestic savings, foreign reserves but promotes growth even more through spillovers of technology, skills, increased innovative capacity, and domestic competition. Now a day, FDI has become an instrument of international economic integration (Kidron Michael,1965).

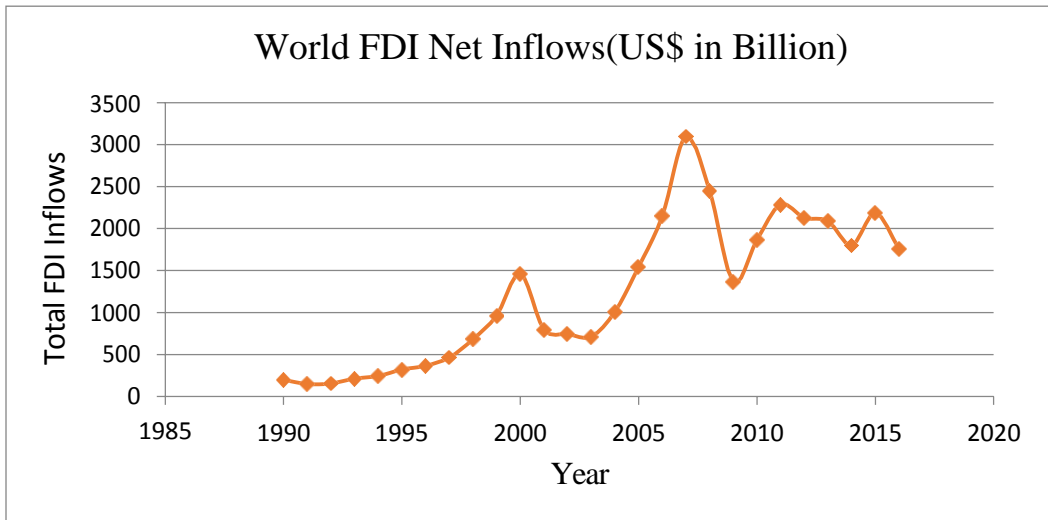
Table1
FDI Limits in Different Sectors

Sectors	Limit(percent)
Agriculture	100
Civil aviation	100
Courier service	100
Credit rating	74
Defence	100
Education	100
FM radio	26
Insurance	49
Multibrand	51
Pension	49
Pharma	100
Power	49
Print media	26
PSBs	20
Pvt bank	74
Railway infrastructure	100
Single brand	100
Stock exchange	49
Telecom	100
Tourism	100
Food products	100
Private security	49
Plantation sector	100

Source: FDI Factsheet

The unprecedented growth of global FDI has made FDI an important and vital component of development strategies in both developed and developing nations and policies are designed in order to stimulate inward flows. The year 1990s led the world into a new era by bringing fundamental changes. Global FDI flows, which had increased in the second half of 1980s, due to countries welcoming stance on FDI continued to rise systematically in 1990s.

Figure 1
World's Total FDI Net Inflows (1990-2016)



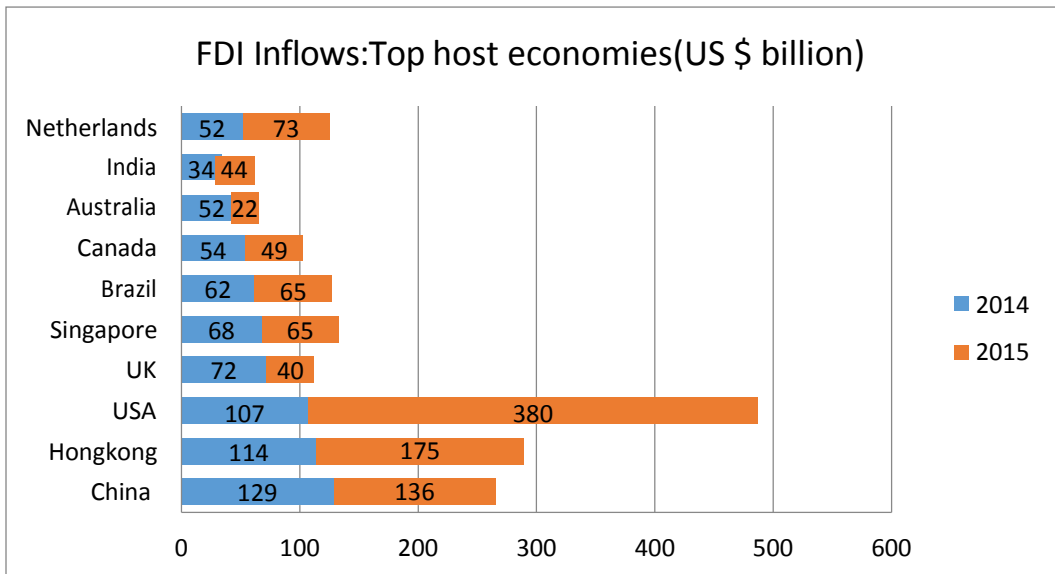
Source: World Bank Data Bank

The above table shows the world FDI inflows after 1990s. Global regional flows have witnessed during the period 1990-2008. The major share of FDI flow of about 62% during 1991-1998 was towards the developed countries leaving nearly 34% to developing countries. There has been improvement in the shares of developing countries from 1999 to 2003. Thereafter due to financial crisis, global FDI inflows fell from a historic high which also changed the investment landscape of both developing and transition economies.

FDI recovery was strong in 2015 but lacked productive impact. The rise in FDI was somewhat at odds with global macroeconomic environment which was dominated by slowing growth in emerging markets and a sharp decline in commodity prices. Developing Asia saw FDI in slow increase by 16% where the growth was driven by strong performance of East and South Asian economies. Although developing Asia remained largest recipient of FDI flows, the geographic pattern tilted in favour of developed economies in 2015.

According to UNCTAD report , China has the highest FDI inflows among developing countries because it has introduced FDI over 20 years ago and has progressively pursued foreign investment while adjusting in FDI policies.India ranked 10th position in FDI inflows.

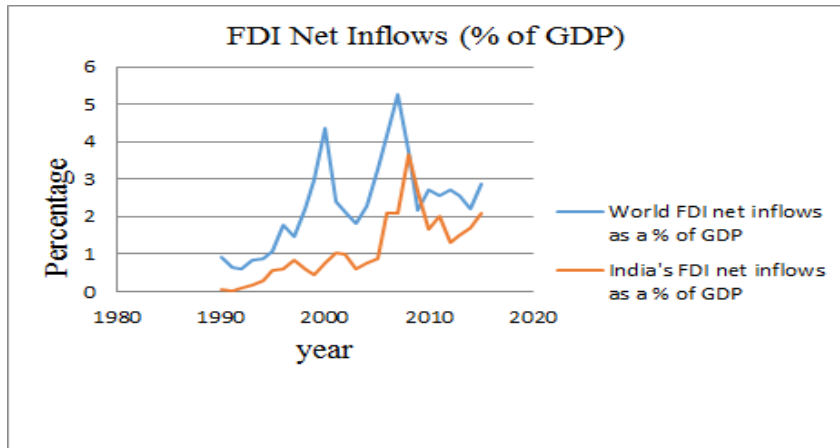
Figure 2
Share of Top host economies in FDI Inflows



Source : World Investment Report

FDI are the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings other than long term capital and short term capital as shown in BoP.

Figure 3
FDI Net Inflows as a Percent of GDP



Source: World Bank Databank

The figure above shows the net inflows in the reporting country from foreign investor and is divided by GDP. The graph shows an upward trend which fell down during crisis and then slowly improving.

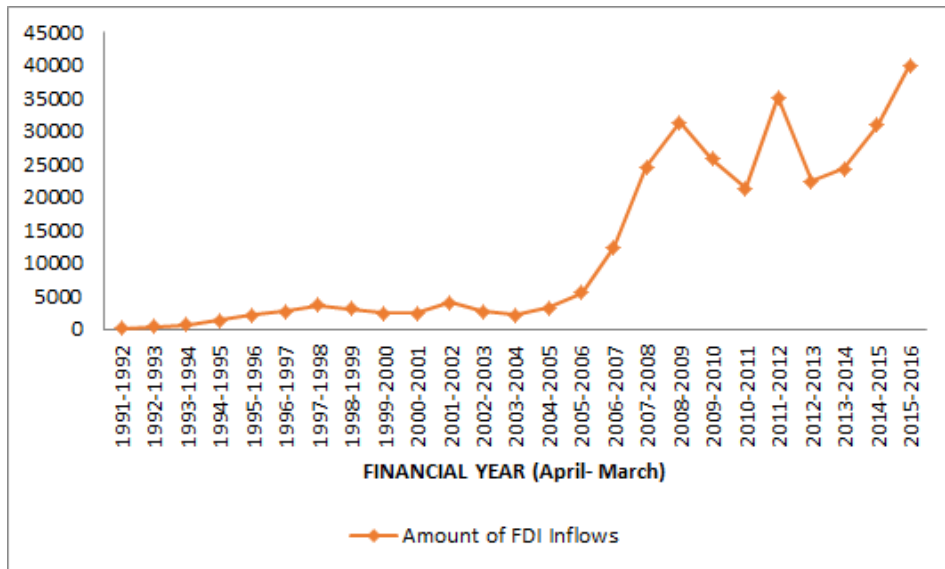
FDI INFLOWS IN INDIA

FDI is one of the main sources for the economic development of India. Cheaper wages and evolving business environment of India are the main factors that have attracted foreign investment in India. The economic liberalisation in India has given a fillip to the FDI. As per the Financial Times, India surpassed China and US as the top destination for Foreign Direct Investment. During 2015 India received investment of \$31 billion in comparison to \$28 billion and \$21billion from China and the US(Akhtar Gulshan,2013).

The actual FDI inflows in India is welcomed under five broad heads: (i) Foreign Investment Promotion Board’s (FIPB) discretionary approval route for larger projects, (ii) Reserve Bank of India’s (RBI) automatic approval route, (iii) acquisition of shares route (since 1996), (iv) RBI’s non – resident Indian (NRI’s) scheme, and (v) external commercial borrowings (ADR/GDR) route. An analysis of the last twenty five years of trends in FDI

inflows shows that there has been a steady flow of FDI in the country upto 2004, but there is an exponential rise in the FDI inflows from 2005 onwards.

Figure 4
Financial Year-Wise FDI Equity Inflows in India (in US \$ million)

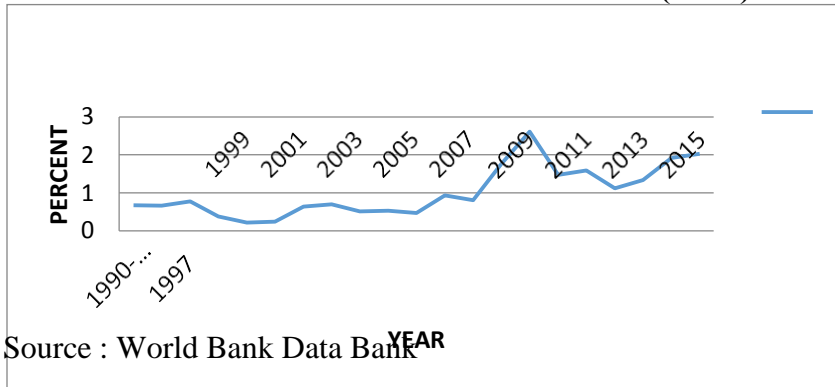


Source: DIPP

Except in 2003, which shows a slight decline in FDI inflows, FDI has been picking up since 2004 and rose to an appreciable level. The increase in FDI inflows during 2008 is due to increased economic growth and sustained developmental process of the country which restore foreign investor’s confidence in Indian economy despite global economic crisis. However, the pace of FDI inflows in India has definitely been slower than China, Singapore, Russian Federation, and Brazil.

In the case of India’s share to world FDI, it shows an increasing trend. In the figure highest share is shown in 2009. Thereafter it shows a downward trend, but recovering from 2012 onwards.

Figure 5
Share of India's FDI Inflows To World FDI (In %)



SOURCES OF FDI IN INDIA

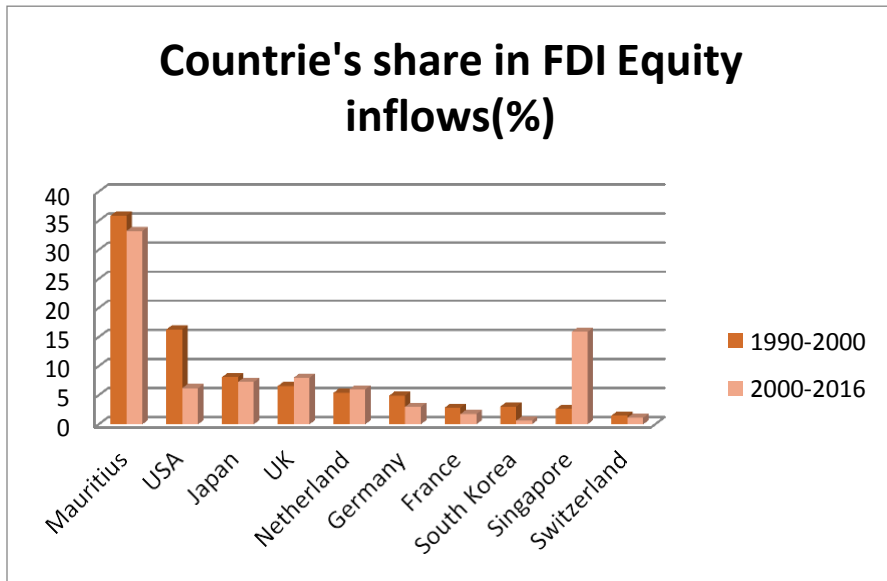
India has broadened the sources of FDI in period of reforms .There were 150 countries investing in India in 2016 as compared to 15 countries in 1991.After liberalization of economy, Mauritius, South Korea, Malaysia and many more countries predominantly appears on the list of major investors apart from US,UK, Germany, Italy, France which are not only the major investors now but during pre-liberalization era also.

Table 2
Top Investing Countries FDI Equity Cumulative Inflows(in US \$ million)

Years/ Countries	1990-2000	2000 – 2016
Mauritius	6731	95909.73
USA	3188	17943.35
Japan	1299	20965.96
UK	1106	23108.35
Netherland	986	17314.46
Germany	908	8629.27
France	492	5111.48
South Korea	594	1797.78
Singapore	515	45879.60
Switzerland	325	3634.78

Source : SIA Newsletter

Figure 6
Country's Share in India's FDI Inflows



The table presents the cumulative inflows and percentage share of major investing countries in India during 1991-2000 & 2000-2016. The dominance of Mauritius is because of Double Taxation Treaty ie,DTAA between countries which favours the routing of investment through this country. This DTAA type of taxation treaty has been made out with Singapore also which shows a sudden increase from 2% to 16 %.

Thus the analysis of last 25 years of FDI inflows shows that only five countries accounted for nearly 60 % of total FDI inflows in India. India needs amount of financial resources to carry forward the agenda of transformation, to tackle BoP imbalances to accelerate economic growth rate and have a sustained economic growth.

SECTOR –WISE FDI INFLOWS IN INDIA

India has been a major recipient of FDI Inflows in the majority of sectors. There has been an unnerving up- surge in the economic development of the country. In the post liberalisation era, India is known to have attracted a large amount of Foreign Direct Investment. Foreign Direct Investment in India is allowed freely in most of the sectors, except a few, where specific guidelines are given for foreign direct investment beyond a limit.

After liberalization its role has changed significantly. Progressive liberalization of FDI policy has strengthened investor confidence with opening up of new sectors like integrated township, tea plantation etc. India's capacity as a host nation in attracting FDI has been enhanced during the post reforms period. Earlier the amount of FDI was low conforming to some selected sectors, but now the inflow of FDI has grown tremendously and almost in all the sectors of the economy. Revision of FDI policy during 2005 opened the few sectors for the foreign investors to start their business.

Since the last several years India has been receiving substantial Foreign Investment in various sectors. Indian sectors attracting highest FDI inflows are service, electrical equipments, transportation industries, telecommunication, fuel and food processing industries. The Indian industries attracting sizable amount of FDI inflows are cement and gypsum products, metallurgical industries, chemicals, and drugs and pharmaceuticals. The Indian government's policy regime and a robust business environment have ensured that foreign capital keep flowing into the country. The government has taken many initiatives in recent years such as relaxing FDI norms in 2013, in sectors such as defense, PSU oil refineries, telecom, power exchanges and stock exchanges, among others. During the year, big global brands such as Tesco, Singapore Airlines and Etihad lined up to invest in India as the government opened more sectors to foreign investment. The cumulative FDI equity inflows to different sectors and their percentage share during the period 2000-2016 are shown below.

Table 3
Cumulative FDI Equity Inflows to Different Sectors
(amount in US \$ million)

SECTORS	CUMULATIVE INFLOWS (2000 – 2016)
Service Sector	50792
Construction Development	24188
Computer Software & Hardware	21018
Telecommunication	18382
Automobile Industry	15065
Drugs & Pharmaceuticals	13849
Chemicals (other than fertilisers)	11900
Trading	11872
Power	10476
Hotel & Tourism	9227

Source: RBI Annual Report

Service sector accounted for 18 % fdi equity inflows. It includes financial and non – financial services, banking, insurance, BPO, R&D, courier etc. Followed by construction development with 8 % share include areas like townships, housing ,built-up infrastructure etc. For an economy to develop it is imperative that infrastructure is one of the parameters for investment. To this end fdi in this sector is of paramount importance. The other sectors that witnessed the inflow are wholesale trade financial services, power, petroleum, natural gas etc.

CONCLUSION

During 1980s, Indian government adopted a liberal policy towards FDI, especially in high technology areas and exports and it was then that FDI friendly environment was created. Again a host of incentives, exemptions and relaxations in the degree of flexibility concerning foreign ownership adopted during 1990s gave a major boost to FDI inflows. The period after 1991 is termed as post liberalization period during which not only the quantum of FDI to India escalated but the sectoral composition of FDI also underwent tremendous change. Revision of foreign investment policy during 2005 has invited FDI in few sectors like construction, housing & real estate.

The period 2000-2015 reveals that India receives a significant share of FDI inflows compared to the period 1991- 1999.

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AN OVERVIEW OF FOREIGN DIRECT INVESTMENT IN INDIA

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ABSTRACT

Foreign Direct Investment flows to developing countries have undergone major changes in recent year, both regarding their scope and their determinants. This article reviews some new trends in this area and focuses specifically on their implications for export processing zones which in the past have been a widely used instrument to attract foreign investment.

Keywords: Foreign direct investment, foreign direct inflow, foreign direct outflow, Horizontal FDI, vertical FDI.

INTRODUCTION

A Foreign Direct Investment (FDI) is an investment in the form of a controlling ownership in a business in one country by an entity based in another country. It is thus distinguished from a foreign portfolio investment by a nation of direct control. FDI refers to capital inflow from abroad that in the production capacity of the economy and are “usually preferred over other forms of external finance because they are non-debt creating, non-volatile and their returns depends on the performance of the project financed by the investors. FDI also facilitates international trade and transfer of knowledge, skills and technology. The origin of the investment does not impact the definition, as an FDI: the investment may be made either “inorganically” by buying a company in the target country or “organically” by expanding business in that country. Broadly, foreign direct investment includes “mergers and acquisitions, building new facilities, reinvesting profits earned from overseas operations, and intra company loans”.

TYPES OF FDI

Horizontal FDI arises when a firm duplicates its home country-based activities at the same value chain stage in a host country through FDI. Platform FDI Foreign Direct Investment from a source country into a

destination country for the purpose of exporting to a third country. Vertical FDI takes place when a firm through FDI moves upstream or downstream in different value chains i.e., when firms perform value-adding activities stage in a vertical fashion in a hosting country.

METHODS OF FDI

The foreign direct investor may acquire voting power of an enterprise in an economy through any of the following methods:

- by incorporating a wholly owned subsidiary or company anywhere
- by acquiring or an associated enterprise
- through a merger or an acquisition of an unrelated enterprise.
- participating in an equity joint venture with another investor or enterprise

HISTORY OF FDI IN INDIA

The initial entry of FDI in India can be loosely considered from the time of establishment of east India company of Britain during the colonial era in the 17th century when the British merchants approached the Mughals emperor for establishing factory in Surat city of India. Along with them British brought on the industrial revolution to India which led to development of transportation and communication systems albeit for their benefits. The new innovation and inventions happening around the European countries got introduced to the Indian subcontinent too.

After the Second World War, many Japanese companies entered the Indian market and enhanced their trade with India. After our independence the policy makers of new Indian realized the need of foreign investment for development and designed the FDI policies aiming it as a medium for bringing in advanced technologies and gaining valuable foreign exchange resources. The industrial policy of 1965, allowed MNCs to venture through technical collaboration in India. Therefore, the government adopted a liberal attitude by allowing more frequent equity.

FDI was introduced in the year 1991 under foreign exchange management Act (FEMA), by the finance minister Dr. Manmohan Singh. It

started with a baseline of \$1 billion in 1990. India is considered as second important destination for foreign investment. The major sector sectors that attracted FDI are service, telecommunication, construction activities and computer software and hardware. India in 1997 allowed foreign direct investment in cash and carry wholesale. Mauritius, Singapore, US, and UK were among the leading sources of FDI. In 2015, India emerged as top FDI destination surpassing china and the US. India attracted FDI OF \$31billion compared to \$28billion and \$27billion of china and the US respectively. India received \$63billion in FDI in 2015. India allowed 100% FDI in many sectors during 2016.

During April-December 2018, India received the maximum FDI equity inflow from Singapore (US\$12.98 billion), followed by Mauritius (US\$6.02 billion), Netherlands (US\$2.95 billion), USA (US\$2.34 billion), and Japan (US\$2.21 billion). India emerged as the top recipient of Greenfield FDI inflow from the commonwealth, as per a trade review released by the commonwealth in 2018. Some of the recent significant FDI announcements are as follows:

- In October 2018, VMware, a leading software innovating enterprise of US has announced investment of US\$ 2 billion in India between by 2023.
- In August 2018, Bharti Airtel received approval of the government of India for sale of 20 per cent stake in its DTH arm to an America based private equity firm, Warburg pincus, for around \$350 million.
- In June 2018, Idea's appeal for 100 per cent FDI was approved by Department of Telecommunication (DoT) FOLLOWED BY ITS Indian merger with Vodafone making Vodafone Idea the largest telecom operator in India.
- In May 2018, Walmart acquired a 77 per cent stake in flipkart for a considerable of US\$ 16 billion.
- International Finance Corporation (IFC), the investment arm of the World Bank Group, is planning to invest about US\$ 6 billion through 2022 in sustainable and renewable energy programmes in India.

ROLE AND SIGNIFICANCE OF FDI

There are various factors that signify the importance of FDI in India some of which are listed below:

HELPS IN BALANCING INTERNATIONAL PAYMENTS: FDI is the Major source of foreign exchange inflow in the country. It offers a supreme benefit to country's external borrowings as the government needs to repay the international debt with the interest over a particular period of time. The inflow of foreign currency in the economy allows the government to generate adequate resources which help to stabilize the BOP (Balance of Payment).

FDI BOOSTS DEVELOPMENT IN VARIOUS FIELDS: For the Development of an economy, it is important to have new technology, proper management and new skills. FDI allows bridging of the technology gap between foreign and domestic firms to boost the scale of production which is beneficial for the betterment of Indian economy. Thus, FDI is also considered an asset to the economy.

FDI & EMPLOYMENT: FDI allows foreign enterprises to establish their business in India. The establishment of these enterprises in the country generates employment opportunities for the people of India. Thus, the government facilitates foreign companies to set up their business entities in the country to empower Indian youth with new and improved skills.

FDI ENCOURAGES EXPORT FROM HOST COUNTRY: Foreign Companies carry a broad international marketing network and marketing information which helps in promoting domestic products across the globe. Hence, FDI promotes the export-oriented activities that improve export performance of the country. Apart from these advantages, FDI helps in creating a competitive environment in the country which leads to higher efficiency and superior products and services.

GOVERNMENT INITIATES TO PROMOTE FDI

The Indian government has initiated steps to promote FDI as they set an investor-friendly policy where most of the sectors are open for FDI under the

automatic route (meaning no need to take prior approval for investment by the Government or the Reserve Bank of India). The FDI policy is reviewed on a continuous basis with the purpose that India remains an investor-friendly and attractive FDI destination. FDI covers various sectors such as Defence, Pharmaceuticals, Asset Reconstruction Companies, Broadcasting, Trading, Civil Aviation, Construction and Retail, etc.

In the Union Budget 2018, the cabinet approved 100% FDI under the automatic route for single-brand retail trading. Under this change, the non-resident entity is permitted to commence retail trading of „single brand“ product in India for a particular brand. Additionally, the Indian government has also permitted 100% FDI for construction sector under the automatic route. Foreign airlines are permitted to invest up to 49% under the approval route in Air India.

The main purpose of these relaxations in foreign investment by the government is to bring international best practices and employ the latest technologies which propel manufacturing sector and employment generation in India. To boost manufacturing sector with a focus on „Make in India“ initiative, the government has allowed manufacturers to sell their products through the medium of wholesale and retail, including e-commerce under the automatic route.

CONCLUSION

Foreign Direct Investment (FDI) is an investment made by a firm or individual in one country into business interests located in another country. Generally, FDI takes place when an investor establishes foreign business operator or acquires foreign business assets, including establishing ownership or controlling interest in a foreign company. Foreign direct investments are distinguished from portfolio investments in which an investor merely purchases equities of foreign-based companies.

Foreign Direct Investment (FDI) are commonly made in open market in open economies that offer a skilled workforce and above-average growth prospects for the investor, as opposed to tightly regulated economies. Foreign direct investment frequently involves more than just a capital

investment. It may include provisions of management or technology as well. The key feature of foreign direct investment is that it establishes either effective control of, or at least substantial influence over, the decision making of a foreign business.

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FOREIGN DIRECT INVESTMENT AND SKILL DEVELOPMENT

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ABSTRACT

India has been one of the major destinations of foreign capital in the post-reform period after 1991. As a developing economy, India faces a major financial crunch for meeting all its requirements. FDI brings with itself expertise and technological know-how from developed countries. It plays an important role in the long term development of a country not only as a source of capital but also for enhancing the competitiveness of the domestic economy through transfer of technology, strengthening infrastructure, raising productivity, generating new employment opportunities and enhancing the human capital.

Keywords- Capital, skill, education, foreign investment

INTRODUCTION

In the classical approach, economics focuses on the inquiry into the nature and causes of the wealth of nations. However, in recent years our focus has shifted to the growth drivers of a country Trade, Human Capital and FDI which have emerged as new factors causing the growth of economies. FDI plays a fundamental role in developing stage of an economy to meet its requirement of infrastructure, industrialization, increasing economic activities, creating employment and also contribute to the social sector infrastructure to the common population. FDI has been considered as a major catalyst in promoting sustainable development in developing countries.

Amongst the major developing countries, India has been one of the major destinations of foreign capital in the post-reform period after 1991. As a developing economy, India faces a major financial crunch for meeting all its requirements. FDI brings with itself expertise and technological know-how from developed countries. It plays an important role in the long term

development of a country not only as a source of capital but also for enhancing the competitiveness of the domestic economy through transfer of technology, strengthening infrastructure, raising productivity, generating new employment opportunities and enhancing the human capital.

A major hurdle faced by the Indian economy is that the actual realisation of FDI is less than the actual investment agreement. The complex bureaucratic system, delay in decision making, corruption, environmental issues, local politics, lack of basic infrastructure, electricity and energy deficiency and lack of skilled workforce are the few reasons for this situation. This scenario can be clearly understood from India's ranking in the Ease of Doing Business Index published by the World Bank. In 2013, India was ranked 132 out of 185 countries. In 2014, the ranking fell to 134 out of 190 countries. India dropped to dismal in 2015 when India was ranked 142nd out of 190 countries.

On the other hand, India is a young country, with the proportion of the workforce in the age group of 16- 59 years growing steadily. We proudly celebrate the fact that the average age of an Indian is 29 years by 2020, compared to 37 in China, 48 in Japan and even more it is said that the dependency ratio will be only 0.4. However, the present status shows only 2% of the total employees in India have undergone skill development training. The challenge before India is to convert this huge human resource into human capital or else our rich demographic dividend would become a demographic disaster.

FDI AND EDUCATION

The role of MNCs in primary and secondary in marginal, there is increasingly clear evidence the MNCs may have a noticeable impact on tertiary education in their host countries. The most important effect is perhaps on the demand side. MNCs provide attractive employment opportunities to highly skilled graduates in natural sciences, engineering and business sciences, which may be an incentive for gifted students to complete tertiary training and MNCs demand skilled labour, which may encourage the government to invest in higher education.

FDI AND SKILL DEVELOPMENT

Greenfield FDI are those in which parent company starts a new venture in a foreign country by constructing new operational facilities from the ground up. In addition to building facilities most parent companies also create new long term jobs in foreign countries by hiring new employees. A transfer of technology helps the individual to learn new production methods and combining different products and processes in an organisation. However, outbound FDI is often accused of increasing income inequality in developed countries by shifting labour demand from low-skilled towards high-skilled workers (wage polarization). A study by Ronald B. Davis and Rodophe Desbordes (2015) finds that Greenfield FDI in support services, e.g., back and front office services, induces polarized skill upgrading, benefitting high-skilled workers at the expense of medium-skilled workers, thereby polarizing wages.

Most Multinational Corporations provide training for their employees, although the amount and type of training may vary depending on the industry, mode of entry, size, time, the horizon of investment, type of operation and local conditions. The level of employees general and cognitive skills is a particularly important determinant for the amount of training undertaken since a relatively high level of education reduces the cost of further training and raises the expected benefits. Competition is another important factor. Firms that are protected from the international and domestic competition are less likely to invest in costly training programmes.

Focus on primary and secondary levels of education is a must as it is the base for a strong tertiary education system. However, this is a major challenge India has to confront. According to the latest statistics of the Ministry of Human Resource Development (MHRD), 39% of boys and 33% of girls dropped out of school before completing elementary education. Poor academic performance, lack of interest in studies and need for employment to support family could be the prime reason for this. The government is also obliged to ensure the quality of education rather than easy promotion norms for producing 100% results.

CONCLUSION

FDI has the potential to generate employment, raise productivity, transfer of skills, increased income, enhance export and contribute to long term economic development of the world's developing countries. However, the factors that have been instrumental in attracting FDI inflows are Cost competitiveness, the potential of the home market and qualified workforce. To improve FDI, India needs to improve upon all the problems creating hurdles in business environment. Easing out the procedure of FDI, reducing complexity of procedures, streamlining policies and facilitating investors on fast track basis can help in increasing actual FDI in India.

Expenditure on primary education might crowd out investment in infrastructure development which attracts FDI inflow in the short run. However, proper allocation of more resources for primary education may be more rewarding in the long run through the development of strong human capital base acting as a catalyst for attracting global investors.

To conclude, we can say that proper education norm of the government can serve as a factor to enhance our human capital and thus attracting FDI as more educated the people are less money has to be spent by the investors on training them. The focus of the Government on Skill development of the youths should make sure it is par with the need of the existing job market.

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MEANING AND DETERMINANTS OF FOREIGN DIRECT INVESTMENT

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ABSTRACT

This paper is purely theoretical in nature. This is intended to provide basic ideas related to the meaning, significance and determinants of Foreign Direct Investment. FDI usually represents a long term commitment to host country and contribute significantly to gross fixed capital formation in developing countries. This paper provides in brief the importance of FDI in the growth process of a nation.

Key words: Foreign Direct Investment

MEANING OF FDI

Foreign Direct Investment proved to be a very crucial and significant catalyst for the growth of any economy. A foreign direct investment (FDI) is 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. Foreign direct investment (FDI) is one of the most effective ways by which transition economies become integrated to the global economy as FDI provides not only capital but also technology and management know-how necessary for restructuring firms in the host economies. [Estrin, Hughes, and Todd(1997); Lankes and Venables(1996)]

IMPORTANCE OF FDI

FDI plays a significant role in the growth of business in a nation. Policy makers should consider corresponding benefits of FDI while designing policies to promote FDI. Some of them are:-

- Access to capital: FDI helps to have access to capital easily and at needed time.

- FDI fosters competition: FDI helps to promote competition among businessmen through providing new technological advancement and access to all types of factors of production without any barriers.
- Building economic & social infrastructure: The economic and social infrastructure of the host country can be upgraded through the assistance of FDI.
- FDI promotes research: FDI promote research and developmental activities in the host country.
- Availability of scarce factors of production: FDI helps the businessmen to find quickly enough factors of production which seems to be scarce.
- Improvement in the balance of payments: It is proved facts that increase in FDI leads to improvement in balance of payment.
- Enhancement of the host country: FDI helps the host country to have an appreciable status at global scenario.
- Foster economic linkage: FDI helps to improve forward and backward linkages in the host country. This will lead to employment generation, income generation and there by development of the target nation.

DETERMINANTS OF FDI

Stability of macroeconomic conditions and level of sustainable growth rates determines FDI inflows of a nation. A nation having high macroeconomic stability and high rate of sustainable growth will be able to attract more FDI compared to a volatile economy. FDI is determined by various elements. All these elements together determines the FDI and thereby growth of the economy.

That factor is discussed below:

- (i) Location of Resource: Location of the resource availability have a crucial influence on inflow of FDI to a country. Larger size of market, proximity to the home market, low-cost availability of labor, favorable tax treatment in the host country etc. belongs to location advantages. Location-specific advantages can also be classified on the basis of three types of motives of FDI: (a) market-seeking investment is undertaken to maintain existing

markets or to exploit new markets. (b) when firms invest abroad to acquire resources that are not available in the home country, the investment is called resource- or asset-seeking FDI. (c) when the firm can gain from the common governance of geographically dispersed activities in the presence of economies of scale and scope, the investment becomes rationalized or efficiency-seeking. Nachum, Dunning, and Jones (2000) claim that they are complementary and that an FDI decision is the result of the harmonization of motives of MNEs and the location advantages of the host country.

- (ii) **Differential Rate of Return:** Country which has relatively higher return on the investment can attract more FDI. Investors prefer to invest only if the rate of return on investment is high. capital flows from countries with low rates of return to countries with high rates of return move in a process that leads eventually to the equality real rates of return (Balasubramanyam, V.N., Salisu, M. & Sapsford, D., 1996). The flow of capital will be in those countries which ensure the highest possible rate of return (Gedam, 1996).
- (iii) **Diversification of the portfolio :** The diversification of portfolio is also considered to be another determinant. Portfolio investment is defined as cross-border transactions and positions involving equity or debt securities, other than those included in direct investment or reserve assets .The appropriate mix of bonds, securities, stock, debenture, depository receipts, etc. refers to portfolio investment. Each of these instruments possess different maturity period .The investor should show concern towards these instruments at a time of risk perceptions. The higher is the perceived country risk due to political, economic and financial changes in one country, an investor would like to take out his capital out of the country (Gedam, 1996).
- (iv) **Government Regulations:** Grubert and Mutti (1991), Loree and Guisinger (1995) find a positive effect of investment incentives and a negative impact of performance requirements imposed by the host governments on inward FDI flows. Bilateral investment agreements and regional investment agreements can therefore

form an important policy instrument for attracting FDI inflows into developing countries.

- (v) **The Level of External Indebtedness:** FDI tends to decline with increase in external indebtedness of host country. The level of indebtedness shows the burden of repayment and debt servicing on the economy, thus making the country less attractive for foreign investors (Chopra, 2003).
- (vi) **Foreign Exchange Reserves:** A positive relationship is postulated between the foreign exchange reserves and the inflow of foreign direct investment (Chopra, 2003). As foreign exchange reserves increase, country will be equipped to attract enough FDI.
- (vii) **Size of the Market:** GDP, the measuring rod of the market size, is supposed to possess positive relation with Foreign Direct Investment of a country. This means that countries' FDI inflows increase with hike in GDP. Market oriented FDI tries to set up enterprises to supply goods and services to the local market with the aim to exploit new markets. The market size of host countries is very important factor in determining inflow FDI. Larger size of the market, speedy economic growth and high level of economic development will lead to attract more market-oriented FDI. Even for export-oriented FDI, the market size of host countries is an important factor because larger economies can provide larger economies of scale and spill-over effects (OECD, 2000).
- (viii) **Internationalization:** Internationalization is the design and development of a product, application or document content that **enables** easy localization for target audiences that vary in culture, region, or language. The internationalization of transaction cost is achieved through FDI investment in subsidiary to eliminate high cost of transaction or replace high cost transaction through low cost when it is impossible to eliminate (Gedam, 1996).

CONCLUSION

This research article basically shows the meaning, significance and different determinants of FDI. Among the factors determining FDI, some possess positive relation with FDI and other have inverse relation with FDI.

Authority should take special concern towards these determinants while planning and fixing norms related to attracting FDI.

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FOREIGN DIRECT INVESTMENT IN THE POST REFORM ERA

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ABSTRACT

In the post liberalization period, foreign investment developments indicates India is being as an investment destination while there is favorable credit conditions in the global market. The study analyzed the growing trend of capital inflows to India in the form of direct investment. The analysis indicates remarkable increase in foreign direct investment in the second decade of post liberalization. Manufacturing, financial services, communication services etc. are the sectors having major share of foreign direct investment in India.

INTRODUCTION

The liberalization of India's external sector and increasing integration into the global economy in the 1990s and the current decade have resulted in the relative dominance of the financial channel over the conventional trade channel. While the aggregate trade flows increased from 10% of the gross domestic product (GDP) in the 1970s to 28% in the first decade of the 2000s, gross capital flows increased sharply from 4% of GDP to 30% during the same period. These developments were underpinned by a sustained momentum in domestic real activity, corporate sector restructuring, a positive investment climate, a long-term view of India as an investment destination and favorable credit conditions in the global market.

The literature on international capital flows reveals that mobility of flows is associated with various benefits and costs. In terms of benefits to the financial markets, the increased mobility of capital contributes to the development of markets in terms of liquidity and price discovery. At the same time, as evident from various crises across countries during the 1990s, an increase in volatility of capital flows poses several risks to the financial markets and the real economy. The surges in capital flows to the EMEs and the associated overshooting of the exchange rate and the currency crises have led to the proliferation of literature on the subject.

Specific measures to liberalize the Indian capital account since 1991 have led to a major surge in foreign investment of both the foreign direct investment (FDI) and portfolio variety.

India has been attracting foreign direct investment in research and development over the past decade.

FOREIGN DIRECT INVESTMENT

Foreign Direct Investment is the investment made in production or business by the country in another country by either means of buying a company or expanding its business in the foreign country. It is usually by means of bonds and shares. Generally speaking FDI refers to capital inflows from abroad that invest in the production capacity of the economy and are “usually preferred over other forms of external finance because they are non-debt creating, non-volatile and their returns depend on the performance of the projects financed by the investors. FDI also facilitates international trade and transfer of knowledge, skills and technology.”

According to the Financial Times, "Standard definitions of control use the internationally agreed 10 percent threshold of voting shares, but this is a grey area as often a smaller block of shares will give control in widely held companies. Moreover, control of technology, management, even crucial inputs can confer de facto control.”

TYPES OF FDI

- a. Horizontal FDI arises when a firm duplicates its home country-based activities at the same value chain stage in a host country through FDI.
- b. Platform FDI Foreign direct investment from a source country into a destination country for the purpose of exporting to a third country.
- c. Vertical FDI takes place when a firm through FDI moves upstream or downstream in different value chains i.e., when firms perform value adding activities stage by stage in a vertical fashion in a host country.

MEASURING FDI: IMF GUIDELINES

According to international guidelines based on the recommendations by the IMF in its Balance of Payments Manual (fifth edition, 1993), FDI is defined as international investment that reflects the objective of a resident entity in one economy (foreign direct investor or parent enterprise) obtaining a “lasting interest” and control in an enterprise resident in an economy other than that of the foreign direct investor. “Lasting interest” implies the existence of a long-term relationship between a direct investor and the enterprise and a significant degree of influence on the management of the enterprise. The general rule of thumb presented in the Manual is that the direct investor owns (or controls) at least 10 per cent of the ordinary shares, voting power or equivalent. FDI flows are the sum of three basic components, viz, equity capital, reinvested earning, and other capital associated with various inter-company debt transactions. FDI flows are recorded on a net basis (capital account credits less debits between direct investors and their foreign affiliates) in the Balance of Payments (BoP). The liabilities represent the source of funding which covers loans, capital and reserves and the profits brought forward. The assets represent the use of funds that involves the act of investment by the company to acquire plant and machinery, real estate, etc. According to IMF guidelines, FDI is defined as a source of capital funds from host country’s point of view as it need not necessarily imply immediate addition to plant and machinery or stocks. FDI flows with a negative sign indicate that at least one of three components of FDI (equity capital, reinvested earnings or inter-company loans) is negative and is not offset by positive amounts of the other components. These are indications of disinvestment. In general, the IMF guidelines are followed closely by industrial countries but not completely by many developing countries due to difficulties in compilation of FDI data.

INDIAN FDI STATISTICS

In India, FDI statistics are published by two official sources: (a) Reserve Bank of India (RBI), and (b) Secretariat for Industrial Assistance (SIA). The RBI presents balance of payment statement in the RBI Bulletin and its Annual Report on monthly and annual basis, respectively. SIA reports FDI inflows on both approval and actual basis in its monthly SIA’s Newsletter and SIA Statistics. The definition of FDI and computation of FDI

statistics used by RBI does not conform to the guidelines of the IMF. Some of the main discrepancies are: First, India excludes reinvested earnings (which are part of foreign investor profits that are not distributed to shareholders as dividends and are reinvested in the affiliates in the host country) while estimating actual FDI inflows. According to IMF guidelines, these reinvested earnings are a part of FDI inflows, and should be recorded as inflow on the capital account of host country's balance of payments. Second, India does not include the proceeds of foreign equity listings and foreign subordinated loans to domestic subsidiaries which, according to IMF guidelines, are part of inter-company loans (long- and short-term net loans from the parent to the subsidiary) and should be a part of FDI inflows. Third, India excludes overseas commercial borrowings, whereas according to IMF guidelines financial leasing, trade credits, grants, bonds, etc., should be included in FDI estimates. Fourth, as per IMF standards, if a shareholding of 10 per cent or more is acquired eventually by a non-resident who entered initially through the portfolio route but holds investment aggregating over 10 per cent through the purchase of additional shares in subsequent transactions, those additional shares should be regarded as a part of FDI. However, in India some Foreign Institutional Investors (FIIs) hold well over 20 per cent of the equity in the form of American Depository Receipts (ADRs) and Global Depository Receipts (GDRs) but these are not a part of FDI.

FDI INFLOWS IN INDIA IN THE POST REFORM ERA

The study analyses trends and pattern of FDI in INDIA in the post liberalization period. The period consists of three decades. The analysis is based on the comparison of FDI inflows in these decades.

Table 1
FDI to India: First Decade

Foreign Investment Inflows	
Year	Direct Investment (US \$ Million)
1991-92	129
1992-93	315
1993-94	586
1994-95	1314
1995-96	2144
1996-97	2821
1997-98	3557
1998-99	2462
1999-00	2155

Source: Reserve Bank of India.

In the post liberalization decade, foreign direct investment increased from 129 Million US dollar to 2155 Million US dollar. During the first decade, India witnessed a decline in the FDI from 3557 million US dollar to 2462 Million US dollar in the year 1998-99.

Table 2
FDI to India: Second Decade

Year	Direct Investment (US \$ Million)
2000-01	4029
2001-02	6130
2002-03	5035
2003-04	4322
2004-05	6051
2005-06	8961
2006-07	22739
2007-08	34729
2008-09	41738
2009-10	33109

Source: Reserve Bank of India

During the first half of the second decade of post liberalization, FDI inflows doubled from 4029 million US dollar to 8961million US dollar. Second half of this decade witnessed huge increase in FDI Inflows, that is, 8961 million US dollar increased to 22739 million US dollar. However, sharp decline occurred in the end of the decade.

FDI TO INDIA: THIRD DECADE

In present decade, FDI inflows show fluctuations. It was 29029 million US dollar in 2010-11. FDI inflows recorded the highest amount of 44907 million US dollar in 2015-16. It was declined to 43302million US dollar.

Table 2

Year	Direct Investment (US \$ Million)
2010-11	29029
2011-12	32952
2012-13	26953
2013-14	30763
2014-15	35283
2015-16	44907
2016-17	42215
2017-18	39431
2018-19	43302

Source: Reserve Bank of India.

COUNTRY WISE INFLOWS

In the present decade Singapore and Mauritius are the major FDI investors in India. During 2015-16 FDI from Singapore was about 12749 million US dollar and from Mauritius 7429 million US dollar. In the next two year, that is, from 2016-2018 Mauritius occupied first place in Foreign direct investment to India. However, 2018-19 witnessed largest FDI from Singapore (14632 million US dollar). 2823 million US dollars accounted as FDI from USA. Switzerland, Ireland, Luxemburg etc. Are the least contributors to India's FDI.

SECTOR WISE INFLOWS

In India, foreign direct investment is highest in the sectors like manufacturing, financial services, communication services, retail and wholesale trade etc. 2018-19 data shows out of the total FDI which is accounted for 38744 million US dollar, 20.4% is in manufacturing sector. FDI in financial services accounted for 16.4% of total FDI to India. Real estate activities, mining etc. are the sectors having the lowest share of total FDI in India.

Computer services and business services received 8.9% and 6.7% of total FDI respectively. But, only 1.9% is invested in education, research and development. However, the amount of FDI doubled in this sector from 347 million US dollar to 736 million US dollar during the period from 2017-18 to 2018-19.

CONCLUSION

Indian economy is experiencing a gradual increase in FDI throughout the post reform era. India's FDI was 14939 million US dollar in 2010-11. In 2018-19 India's FDI accounted for 38744 million US dollar. Secondary sector attracting major part of foreign direct investment in India. Lower share of total direct investment to India can be observed in the tertiary sector.

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RECENT TRENDS AND CHALLENGES OF FOREIGN DIRECT INVESTMENT IN INDIA

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ABSTRACT

Many economists in the country have now realized the advantages of FDI to India. While the achievements of the Indian government are to be lauded, a willingness to attract FDI has resulted in what could be termed an “FDI Industry”. While researching the economic reforms on FDI, it was discovered that there exists a plethora of boards, committees, and agencies that have been constituted to ease the flow of FDI. A call to one agency about their mandate and scope usually results in the quintessential response to call someone else. Reports from FICCI place investor confidence and satisfaction at an all time high; citizens too deserve to be clued in on the government bodies are doing. The FDI scenario in India is currently witnessing a gradual shift with liberalized reforms over last few years and an attractive investment climate making a positive impact on the inflow. With a steady increase in volume of FDI, India has attracted more than 90 countries till 2018 (29 countries in 1991) across the globe to invest in India making it upstages US in the list of top investment destinations in the world in the UNCTAD WIP Report. Investment into India could mostly follow the automatic route with no licenses or permissions required Investment in sectors that have caps such as single brand retail, private banking, insurance, stock exchange needs to be approved by Foreign Investment Promotion Board. This paper tries to identify the historical and current situation of FDI inflows to India and also tries to highlight key areas. Also, some areas which need improvement are also highlighted so that it can open gates for more and more investors to invest in India through FDI through which India could become and remain No.1 as most favorite destination of FDI investment across the globe.

Key Words: Equity capital, invested earnings, Foreign aid, Diversification, Net inflow of FDI, Debt crises

INTRODUCTION

Foreign Direct Investment (FDI), according to the IMF, is the category of international investment that reflects the objective of obtaining a lasting interest by a resident entity in one economy in an enterprise resident in another economy. The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence by the investor on the management of the enterprise. FDI is often perceived as a channel of progress and development, as it promises to bring financial resources and technology. The counter view is that FDI is an instrument employed by rich countries to control resources in developing economies. This debate requires rigorous empirical country specific research to be able to assess the role of FDI in a country. Recent trends and challenges of FDI in India provides an analysis of FDI in India from the perspective of evolution of policy on FDI and its associated economic impact. Foreign Direct Investment (FDI) broadly encompasses any long-term investments by an entity that is not a resident of the host country. Typically, the investment is over a long duration of time and the idea is to make an initial investment and then subsequently keep investing to leverage the host country's advantages which could be in the form of access to better (and cheaper) resources, access to a consumer market or access to talent specific to the host country which results in the enhancement of efficiency. This long-term relationship benefits both the investor as well as the host country. The investor benefits in getting higher returns for his investment than he would have gotten for the same investment in his country and the host country can benefit by the increased know how or technology transfer to its workers, increased pressure on its domestic industry to compete with the foreign entity thus making the industry improve as a whole or by having a demonstration effect on other entities thinking about investing in the host country.

HISTORICAL BACKGROUND OF FDI IN INDIA

Historical background of FDI in India can be traced back with the establishment of East India Company of Britain. British capital came to India during the colonial era of Britain in India. After Second World War, Japanese companies entered Indian market and enhanced their trade with India, yet U.K. remained the most dominant investor in India. Further, after

Independence issues relating to foreign capital, operations of MNCs, gained attention of the policy makers. Keeping in mind the national interests the policy makers designed the FDI policy which aims FDI as a medium for acquiring advanced technology and to mobilize foreign exchange resources. With time and as per economic and political regimes there have been changes in the FDI policy too. The industrial policy of 1965, allowed MNCs to venture through technical collaboration in India. Therefore, the government adopted a liberal attitude by allowing more frequent equity participation to foreign enterprises, and to accept equity capital in technical collaborations. But due to Significant outflow of foreign reserves in the form of remittances of dividends, profits, royalties and the government has to adopt stringent foreign policy in 1970s. During this period the government adopted a selective and highly restrictive foreign policy as far as foreign capital, type of FDI and ownerships of foreign companies was concerned Government setup Foreign Investment Board and enacted Foreign Exchange Regulation Act in order to regulate flow of foreign capital and FDI flow to India. The soaring oil prices continued low exports and deterioration in Balance of Payment position during 1980s forced the government to make necessary changes in the foreign policy. Thus, resulting in the partial liberalization of Indian Economy. The government introduces reforms in the industrial sector, aimed at increasing competency, efficiency and growth in industry through a stable, pragmatic and non-discriminatory policy for FDI flow. In this critical face of Indian economy the government of India with the help of World Bank and IMF introduced the macroeconomic stabilization and structural adjustment program. As a result of these reforms India open its door to FDI inflows and adopted a more liberal foreign policy in order to restore the confidence of foreign investors. Further, under the new foreign investment policy Government of India constituted FIPB (Foreign Investment Promotion Board) whose main function was to invite and facilitate foreign investment through single window system from the Prime Minister's Office. The foreign equity cap was raised to 51 percent for the existing companies. Government had allowed the use of foreign brand names for domestically produced products which was restricted earlier. India also became the member of MIGA (Multilateral Investment Guarantee Agency) for protection of foreign investments. Post the economic reforms of 1991, the FDI route to India

became easier. Also, for a developing country sometimes domestic sources may not be enough. Hence, foreign capital can help fill the gaps between domestic savings and investment requirements. FDI is one of the important tools of economic growth for a developing nation like India. So to boost the flow of foreign investment the process of liberalization is undertaken. However, liberalization of an economy always comes with regulations.

ROUTES FOR FDI

Basically, there are two routes for FDI in India. There is the Automatic Route, where no approval or authority is required by the private foreign investor. He can invest in any company it wishes with no need for government approval. And then there is the Government Route. In this route, there is no investment without the prior approval of the Government of India. Foreign Direct Investment in India does not have a uniform rate. Some industries allow 100% FDI, i.e. the entire funds of the business can be from foreign direct investment. The percentages vary from 26% to 49% to 51%. After liberalization of Trade policies in India, there has been a positive GDP growth rate in Indian economy. FDI have helped India to attain a financial stability and economic growth with the help of investments in different sectors. FDI has boosted the economic life of India and on the other hand there are critics who have blamed the government for ousting the domestic inflows. Foreign direct investments helps in developing the economy by generating employment to the unemployed, Generating revenues in the form of tax and incomes, Financial stability to the government, development of infrastructure, backward and forward linkages to the domestic firms for the requirements of raw materials, tools, business infrastructure, and act as support for financial system. Forward and back ward linkages are developed to support the foreign firm with supply of raw and other requirements. It helps in generation of employment and also helps poverty eradication. There are many businesses or individuals who would earn their lively hood through the foreign investments. There are legal and financial consultants who also guide in the early stage of establishment of firm. Foreign investments mean both foreign portfolio investments and foreign direct investments (FDI). FDI brings better technology and management, marketing networks and offers competition, the latter helping Indian companies improve, quite apart from being good for consumers. Alongside opening up of the FDI regime, steps

were taken to allow foreign portfolio investments into the Indian stock market through the mechanism of foreign institutional investors. The objective was not only to facilitate non-debt creating foreign capital inflows but also to develop the stock market in India, lower the cost of capital for Indian enterprises and indirectly improve corporate governance structures. On their part, large Indian companies have been allowed to raise capital directly from international capital markets through commercial borrowings and depository receipts having underlying Indian equity. Thus the country adopted a two-pronged strategy: one to attract FDI which is associated with multiple attendant benefits of technology, access to export markets, skills, management techniques, etc. and two to encourage portfolio capital flows which ease the financing constraints of Indian enterprises. 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. The total number of approvals recorded for the period of 2000 to 2010 by the RBI, SIA and FIPB is 8080. The RBI has approved 4580 proposal whereas SIA and FIPB have approved 3500. Technical collaborations have put a positive effect on the domestic firms. It helped in establishing technology transfers.

PRESENT SCENARIO

As the restrictions on foreign investments were reduced or removed, there was a sudden spurt in foreign net inflows. The number of approvals of foreign technical collaborations registered a dramatic increase in the new policy regime, and the number of foreign technology approvals went up. The value of FDI approvals also increased significantly in the post-reform period. In 1997, \$15.8 billion of FDI was approved in contrast to US\$0.3 billion approved in 1991. Net FDI inflows were only US\$ 0.074 billion in 1991 increasing to US\$ 3.6 billion by 1997, though falling in later years (US\$ 2.6 billion in 1998). After 1991, foreign investment followed a steep upward path from 1981 to 1990, FDI grew by 23 per cent annually; this increased to 44 per cent annual growth during 1991 to 2001. Only US\$ 0.1 billion of foreign capital was invested in 1991, compared with US\$ 4.28 billion in 2001 (World Bank Development Indicators). However, FDI still constitutes a very low share of total investment in India. By 1998, this ratio

was 2.5 per cent - much lower than that of most other Asian countries. In many other post-reform economies, FDI has been seen to increase substantially when there has been large-scale public sector privatization. In India this has not happened as yet; indeed domestic firms in India have proved capable of absorbing large state owned firm being privatised, for example BALCO and VSNL. But the share of FDI, as a percentage of gross domestic investment (GDI) and GDP, has been growing. While the share of FDI in GDI was only 0.2 per cent in 1990, it increased to 3.98 per cent by 2001, while FDI as a per cent of GDP increased from 0.05 per cent in 1990 to 0.90 per cent in 2001.

Although, inflows of foreign investments did gear up, they were not very impressive in comparison with some other countries. India's FDI share in the developing world was only 0.4 per cent in 1991. A marginal improvement was seen by 2001, when the share had increased to 1.7 per cent. Total FDI Equity inflow in India from various sectors was USD 2378.68 million in 2000-01, USD 4027.69 million in 2001-02, USD 2704.34 million in 2002-03, USD 2187.85 million in 2003-04, USD 3218.69 million in 2004-05, USD 5539.72 million in 2005-06, USD 12491.77 million in 2006-07, USD 24575.43 million in 2007-08, USD 31395.97 million in 2008-09, USD 25834.41 million in 2009-10, USD 21383.05 million in 2010-11, USD 35120.8 million in 2011-12, USD 22423.58 million in 2012-13, USD 24299.33 million in 2013-14, USD 30930.5 million in 2014-15, USD 40000.98 million in 2015-16 and USD 43478.27 million in 2016-17, respectively.

FDI inflows had declined globally in 2009 and 2010. While India was able to largely insulate itself from the decline in global inflows in 2009-10, FDI flows had moderated in 2010-11. The slowdown in FDI inflows could mainly be attributed to a lagged effect of a pause in implementing investment decisions, which could range between one to two years, depending upon the sector and size of individual projects. A number of global investors had then remained cautious about making large investments in new sectors, given the fragility of the global recovery. There was a decline in growth of total FDI Equity Inflow of -36.15% during 2012-13 over 2011-12 in India. There was a growth of total FDI Equity Inflow of 8.37% during 2013-14 over

2012-13 in India. There was a growth of total FDI Equity Inflow of 27.29% during 2014-15 over 2013-14 in India. There was a growth of total FDI Equity Inflow of 29.33% during 2015-16 over 2014-15 in India. There was a growth of total FDI Equity Inflow of 8.69% during 2016-17 over 2015-16 in India.

Figure 1
FDI Inflow 2000-01 to 2017-18

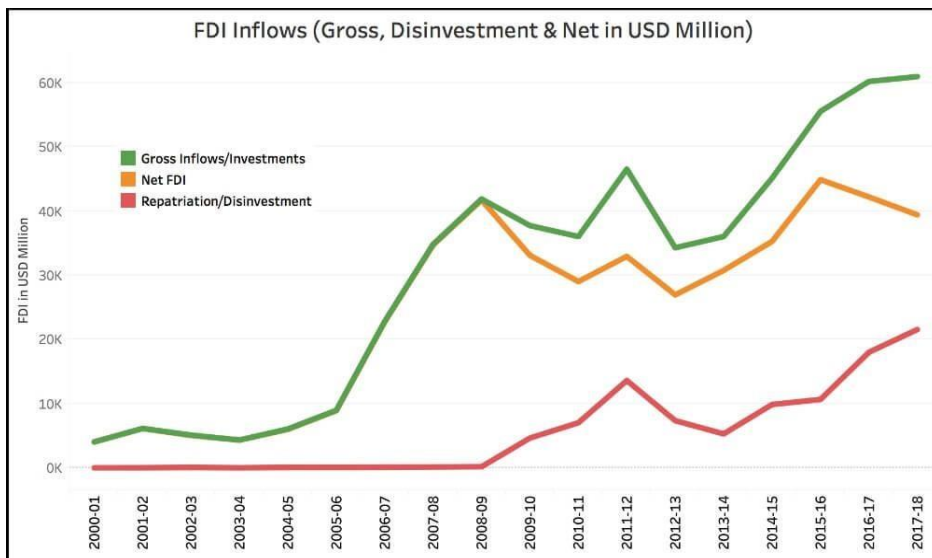
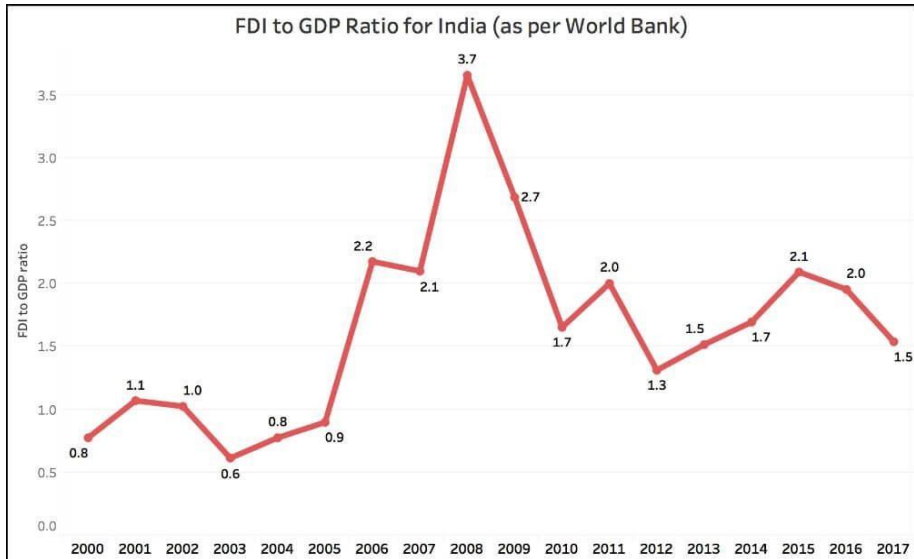


Figure 2
FDI to GDP Ratio for India



FDI of up to 100% is allowed in numerous sectors and activities which include most manufacturing activities, non-banking financial services, software development, hospital, private oil refineries, electricity generation (non-atomic) / transmission distribution, roads & highways, ports & harbors, hotel & tourism, research and development etc. Only a have been limited to industrial licensing and a couple being total prohibited e.g. atomic energy, railway transport etc. Other places where 100% FDI is permitted are for setting up Special Economic Zone (SEZ) Units and 100% Export Oriented Units (EOU). There are multiple forms of entry for a corporation depending on its needs and requirements which include entry through setting up Joint Ventures, Wholly Owned Subsidiaries, Liaison / Representative Office, Project Office or Branch Office. Liberal foreign exchange regulations, under the rule of the Central Bank, namely the Reserve Bank of India e.g. all foreign investment and dividends declared thereon is freely repairable unless otherwise specified under a particular scheme and through an authorized dealer. Favorable policies for Foreign Institutional Investors (FIIs) looking to just invest and trade in as well as out of the Stock Exchange under the Portfolio Investment Scheme (PSI). They

have the option of investing in both equity and debt instruments, the only catch being that the investment has to be split in the ratio of 70:30, and also the other option of declaring themselves purely interested in debt instruments and then becoming a 100% debt FII.

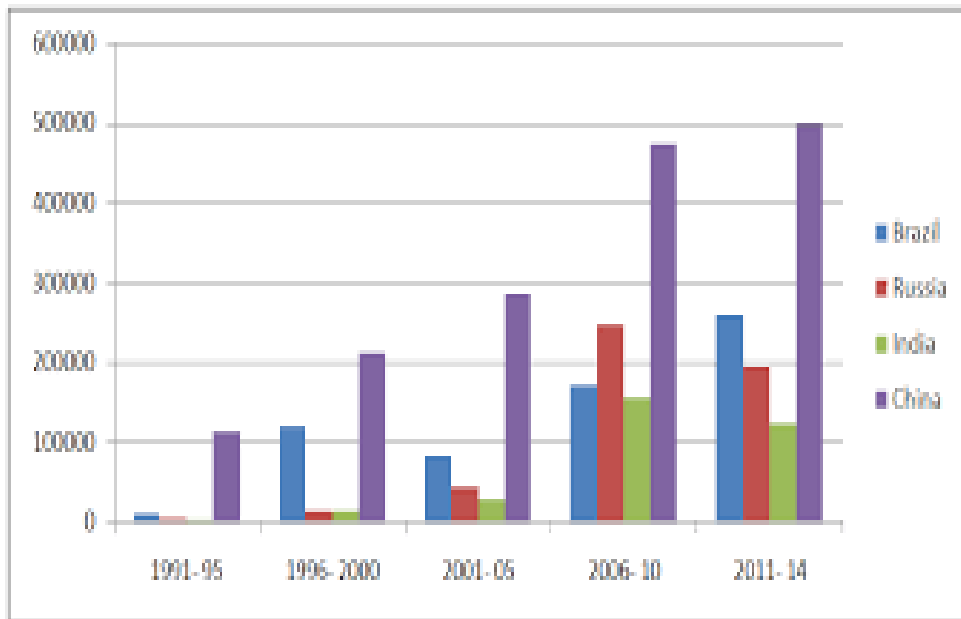
A mature and favorable taxation system with low customs and excise duties and low corporate taxes. It caters for numerous tax holidays or rebates depending upon the sector of investment and geographical location e.g. there is a tax holiday of 10 years for foreign investment in infrastructure projects, various projects taken up in certain backward areas in the North Eastern States and Sikkim, units located in specified zones, projects which are 100% export oriented etc. Moreover India has already entered into a Double Taxation Avoidance Agreement (DTAA) with 65 other countries, under which the income generated in India will be taxed in India and then would not be re-taxed in the home country of the investor, only the difference in the tax rate between the home country and India would be payable.

Keeping in mind the growing concern over intellectual property rights, India has been prompt to enact numerous rules and regulations e.g. The Patents Act, The Trademarks Act, The Geographical Indicators of Goods Act and The Designs Act. To assist in providing a prompt and smooth investment process the Indian Government has set up numerous independent institutions e.g. The establishment of Foreign Investment Implementation Authority (FIIA) to assist in the prompt implementation of FDI approvals, the formation of the Foreign Investment Promotion Board (FIPB) to assess various FDI proposals and to cater to the grievances and complaints of potential and current investors to ensure adequate and up-to-date information on current policies and procedures is available at all time to investors various points of call have been set up which can be easily accessed e.g. the Secretariat for Industrial Assistance (SIA) has been set up for this particular purpose. Other means online chats, bulletin board services, frequent publications and monthly newsletters.

Focusing in on more recent events in India and specifically in the Banking and Insurance Sector, in previous years the FDI limit in private

sector banks was raised to 74% from the existing 49% and the insurance sector to be hiked from 26% to 49%, but there was a caveat of only having 10% voting rights irrespective of the shareholding, which was seen as a major constraint. In 2005, a new regulation namely the Banking Regulation (Amendment) Bill 2005 has been proposed which will give private investors voting rights which will be in line with their current shareholding. Once this regulation is given the nod, it is likely to increase foreign investment significantly

Figure 3
Trend of FDI in different countries



The meaning of FDI is not restricted only to international movement of capital. Its definition also encompasses the international movement of elements that are complementary to capital - such as skills, processes, management, technology etc.

SIGNIFICANT IMPACTS

THE WAYS IN WHICH FDI BENEFITS THE RECIPIENT NATION

INCREASED EMPLOYMENT AND ECONOMIC GROWTH

Creation of jobs is the most obvious advantage of FDI. It is also one of the most important reasons why a nation, especially a developing one, looks to attract FDI. Increased FDI boosts the manufacturing as well as the services sector. This in turn creates jobs, and helps reduce unemployment among the educated youth - as well as skilled and unskilled labour - in the country. Increased employment translates to increased incomes, and equips the population with enhanced buying power. This boosts the economy of the country.

HUMAN RESOURCE DEVELOPMENT

This is one of the less obvious advantages of FDI. Hence, it is often understated. Human Capital refers to the knowledge and competence of the workforce. Skills gained and enhanced through training and experience boost the education and human capital quotient of the country. Once developed, human capital is mobile. It can train human resources in other companies, thereby creating a ripple effect.

DEVELOPMENT OF BACKWARD AREAS

This is one of the most crucial benefits of FDI for a developing country. FDI enables the transformation of backward areas in a country into industrial centres. This in turn provides a boost to the social economy of the area. The Hyundai unit at Sriperumbudur, Tamil Nadu in India exemplifies this process.

PROVISION OF FINANCE & TECHNOLOGY

Recipient businesses get access to latest financing tools, technologies and operational practices from across the world. Over time, the introduction of newer, enhanced technologies and processes results in their diffusion into the local economy, resulting in enhanced efficiency and effectiveness of the industry.

INCREASE IN EXPORTS

Not all goods produced through FDI are meant for domestic consumption. Many of these products have global markets. The creations of 100% Export Oriented Units and Economic Zones have further assisted FDI investors in boosting their exports from other countries.

EXCHANGE RATE STABILITY

The constant flow of FDI into a country translates into a continuous flow of foreign exchange. This helps the country's Central Bank maintain a comfortable reserve of foreign exchange. This in turn ensures stable exchange rates.

STIMULATION OF ECONOMIC DEVELOPMENT

This is another very important advantage of FDI. FDI is a source of external capital and higher revenues for a country. When factories are constructed, at least some local labour, materials and equipment are utilised. Once the construction is complete, the factory will employ some local employees and further use local materials and services. The people who are employed by such factories thus have more money to spend. This creates more jobs.

These factories will also create additional tax revenue for the Government that can be infused into creating and improving physical and financial infrastructure.

IMPROVED CAPITAL FLOW

Inflow of capital is particularly beneficial for countries with limited domestic resources, as well as for nations with restricted opportunities to raise funds in global capital markets.

CREATION OF A COMPETITIVE MARKET

By facilitating the entry of foreign organisations into the domestic marketplace, FDI helps create a competitive environment, as well as break domestic monopolies. A healthy competitive environment pushes firms to continuously enhance their processes and product offerings, thereby

fostering innovation. Consumers also gain access to a wider range of competitively priced products.

CURRENT CHALLENGES AND IMPROVEMENT AREAS

As explained above, India is definitely a lucrative place for FDI, but there are certainly some challenges and areas for improvement still present. Until, these areas are honed to perfection, India will not become the number one place for FDI. Some of the key areas are listed below:

A) POLITICAL RISK: Amongst the top items is the political instability of the country. On one hand the fact that India is the world's largest democracy does add a sense of pride and security, but the hard reality is that there is insurmountable instability present. Just the fact that the past two governments have been based on coalitions between a few parties is reason enough to be skeptical. Moreover, each new government has certain policies which are different from the ruling government and if there is frequent change in government, this will lead to changes in policy and increased uncertainty.

B) BUREAUCRACY: Another very important factor that affects India's competitiveness on the world standing is the Bureaucracy. Particularly in the FDI process the Indian Government has already invested a lot of time and effort but there is still a lot of room for improvement in the identification, approval and implementation process e.g. creating more center for assistance, more user friendly processes, effective use of technology, being as clear as possible leaving no room for interpretation, assisting in identifying new areas for investment etc. `r

C) SECURITY RISK: Another important factor that needs to be handled with care and worked upon is the ever present security risk. This risk includes the geopolitical risk with Pakistan and the ongoing dispute over the Kashmir issue, which on numerous occasions has brought these two countries armed with nuclear weapons to the brink of war. The other security risks would include incidences of domestic terrorism, not only in the Kashmir valley but also in Assam, Manipur and Nagaland, where numerous separatists group operate.

D) COST ADVANTAGE: One of the attractions of India is the lower cost advantage as compared to most western economies. The Indian Government would have to work on creating an atmosphere where this advantage can be maintained else it might result in India not seem as attractive. One of the key drivers would be to try and control inflation because if there is increased level of inflation then there would be increased costs and reduced returns. Other factors which would act in similar respects would be increased tax incentives and reduced tariffs.

E) INTELLECTUAL PROPERTY (IP) RIGHTS & PIRACY: With the increased instances of Piracy around the world and the extreme importance placed by Investors on maintaining their IP rights, this is definitely an area which needs improvement in India. India has begun instilling intellectual property rules and regulations into the country but there is still a long road ahead. The main area for improvement in this respect is the enforcement, which is the most crucial part but the weakest at present in the country. The enforcement of IP rights included the increased crackdown in the market on pirated and knock-downed good.

F) PRIVATIZATION AND DEREGULATION: Increased privatization of various sectors would definitely enhance the attractiveness of India as an FD destination. India has already taken steps to privatize areas such as electricity, telecommunication etc. and increase the foreign holding capacity in sectors such as banking and insurance which is a first step.

G) INFRASTRUCTURE: It definitely is an added bonus to the investor if there is adequate infrastructure present in the country. In India there is substantial lack of robust infrastructure around the country, e.g. proper roads, highways, adequate supply of clean water, uninterrupted supply of electricity etc. But there is a flipside to this lack of Infrastructure. So the lack of infrastructure can definitely be seen as a blessing in disguise and be a substantial source of FDI, but nevertheless if this FDI does not materialize, the Government will have to invest their own funds into it and try and attract other investments

CONCLUSION

Foreign Direct Investment as a strategic component of investment is needed by India for its sustained economic growth and development through creation of jobs, expansion of existing manufacturing industries, education and research and development etc. Government should design the FDI policy such a way where FDI inflows can be utilized as means of enhancing domestic production, savings and exports through the equitable distribution among states so that they can attract FDI inflows at their own level. FDI can help to raise the output, production and export at the sector level of the Indian economy. It is advisable to open up the export oriented sectors and higher growth of economy could be achieved through the growth of these sectors. Keeping in mind the humble beginning of India and the stage at which it is right now goes to show how much potential is present in this country and if the Indian government works on the areas for improvement mentioned above and continues to support and assist the encouragement of FDI into India, there is no stopping India into becoming the number one destination for FDI in the world, far beyond China.

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