Foreign Direct Investment and Economic Growth:` Present Scenario

[1]Kamlesh Kumar Shukla [2]Stuti Tripathi

Abstract

Worldwide Economic assimilation plays a dynamic role in economic and commercial development of any nation. Foreign direct investment is one and only main device of appealing international economic assimilation in any economy. It assists as a relationship between investment and saving. Many developing nations like India, are facing the scarcity of savings. This difficulty can be resolved with the help of foreign direct investment. Foreign investment supports in dropping the deficit of BOP. The flow of foreign investment is a profit making industry like insurance, real estate and business services and serving as a catalyst for the growth of economy in India.

The existing study is centered on the objectives like (i) to recognize the requirement of amount of foreign direct investment by India, for its economic and financial Development and (ii) to examine the movement and importance of FDI & FIIs in refining the superiority and accessibility of possessions has been beyond doubt. To examine all these goals data has been collected through various sources like informations and journal of Govt. and RBI recitation to foreign direct Investment. After evaluating all the evidences it may be established that determined worldwide foreign investment's movements are fascinated by the advanced nations relatively than developing and under developing nations.

Key Words: Foreign Direct Investment, Balance of Payment, Economic Growth, Internal Personal Disparity, infrastructure, International trade.

Introduction:

When an enterprises or firm controls (or have a robust say in) another enterprise situated overseas, e.g. by owing more than ten percent of its equity, the earlier is said "parent enterprise"

[1] Assistant Professor, Kalicharan Post Graduate College, Chowk, Lucknow, India

[2] Associate Professor, Goyal Institute of Higher Studies, Faizabad Road, Lucknow, India

(or "stakeholder") and the second "foreign affiliate". For a nation, appealing an inflow of FDI reinforce the connection to world trade systems and funding its growth path. Nevertheless, individual considerable FDI to a nation can make it reliant on the exterior burden that overseas holders might exert on it. Foreign investment plays an important role in expansion of Indian economy. Many nations provide many incentives for attracting the foreign direct investment (FDI). Requirement of FDI rest on on saving and investment rate in any nation. Foreign Direct investment performs as a bridge to achieve the gap amid investment and saving. In the course of economic growth foreign capital assist to cover the national saving restraint and afford access to the greater skill that helps effectiveness and productivity of the present manufacturing capacity and generate new production opening.

According to statistics issued by the Department of Industrial Policy and Promotion (DIPP), India invited $46 billion foreign direct investment (FDI) in 2016. It indicate that, India's FDI raised by 18% in 2016 as compared to $39.32 billion FDI inflows in 2015.

Key Facts: The main sectors which attracted the highest foreign inflows include services, telecom, trading, computer hardware and software and automobile. Bulk of the FDI came in from Singapore followed by Mauritius, Netherlands and Japan.

Foreign investments are measured critical for India as it requires around 1 trillion dollars for renovating its infrastructure sector such as airports and highways, ports to boost growth. Robust inflow of foreign investments mostly aids to recover the country's balance of payments (BoP) condition and also support the rupee value against other global exchanges, especially dominant US dollar. To appeal inflow of foreign investments, the central government has proclaimed several methods comprising liberalisation of FDI policy and development in business environment. In the Budget 2017-18, Finance Minister declared easing of foreign investment standards and also abolished Foreign Investment Promotion Board (FIPB).

Objectives of the Study:

This research work aims at analysing the role of Foreign Direct Investment upon the economic growth and development of an economy, and to identify the rationale behind inviting FDI into economies across the World. The Study seeks to ascertain the economic policy regarding FDI of the Government of India in the pre and post-liberalization era. The main objective of the present study are:

1. To analyse the significance of FDI for growth of an economy.
2. To study the various parameters of the Indian economy as well as the position of FDI in the past and present.
3. To make a panoramic overview of the various aspects of the Chinese economy.
4. To ascertain the past and present trends and policies for FDI into the People's Republic of China.
5. To identify the reasons for India's lack lusture performance in attracting FDI which is negligible as compared to China.

Research Methodology:

The present study is theoretical and analytical in nature and is mainly based on Secondary Data. In-depth interactions/discussion with various Government agencies/representative agencies concerned with Foreign Direct Investments have also been undertaken. Extensive review of reports by various committees have also been made. Public and documented data, pertinent literature and other information have been critically analysed in the thesis. Reports and publications of the Government of India and People's Republic of China have been scanned for interpreting trends and patterns of FDI inflows and outflows. Inferences have been drawn to suggest appropriate policy measures.

"Make in India" programme

With the objective of making India a global hub of manufacturing, design and innovation, the "Make in India" initiative, which is based on four pillars—new processes, new manufacture, new mindset and new sector—has been taken by the government. The initiative is set to boost entrepreneurship, not only in manufacturing but in relevant infrastructure and service sectors as well.

An interactive portal http://makeinindia.com for disemination of information and interaction with investors has been created with the objective of generating awareness about the investment opportunities and projects of the country, to promote India as a preferred investment destination in overseas markets and to increase India's share of global FDI. In addition, the information on 25 thrust sectors along with details of the FDI policy, National Manufacturing Policy, Intellectual Property Rights and the proposed National Industrial Corridors, including the Delhi-Mumbai Industrial Corridor are available on the portal.

The Department of Industrial Policy and Promotion (DIPP), in consultation with various Central Ministries, state governments, industry leaders and other stakeholders, has formulated a strategy for increasing the contribution of the manufacturing sector to 25 per cent of GDP by 2020.

The government of India has set up Invest India as the national investment promotion and facilitation agency. With the objective of promoting investment in the country, a full-fledged investment facilitation cell has been set-up under the Make in India initiative, primarily to support all investment queries as well as to handhold and liaise with various agencies on behalf of potential investors.

As envisaged by the National Manufacturing Policy 2011, Make in India seeks to create 100 million additional jobs in manufacturing by 2022. The government is taking a number of steps to enhance the skills of workers/unemployed in India in order to improve their employability. In order to tap the creative potential and boost entrepreunership in India, the Start-up India campaign has been announced. An innovation promotion promoter platform called ATAL Innovation Mission (AIM) and a techno-financial and facilitation programme called Self-Employment & Talent Utilization (SETU) are being implemented to encourage innovation and start-ups in India.

For supporting the financial needs of the small and medium enterprise sector and promote start-ups and entrepreneurship, the government has taken various steps through Make in India. The India Aspiration Fund has also been set-up under Small Industries Development Bank of India (SIDBI) for venture capital financing of newly set-up or expanding units in the MSME sector. SIDBI Make in India loan for Small Enterprises (SMILE) has been launched to offer quasi-equity and term-based short-term loans to Indian SMEs with less stringent rules and regulations and a special focus on 25 thrust sectors of Make in India. Further, a Micro Units Development Refinance Agency (MUDRA) Bank has been set up to provide development and refinance to commercial banks/NBFCs/cooperative banks for loans given to micro units. MUDRA Bank would follow a credit-plus approach by also providing financial literacy and addressing skill gaps, information gaps, etc.

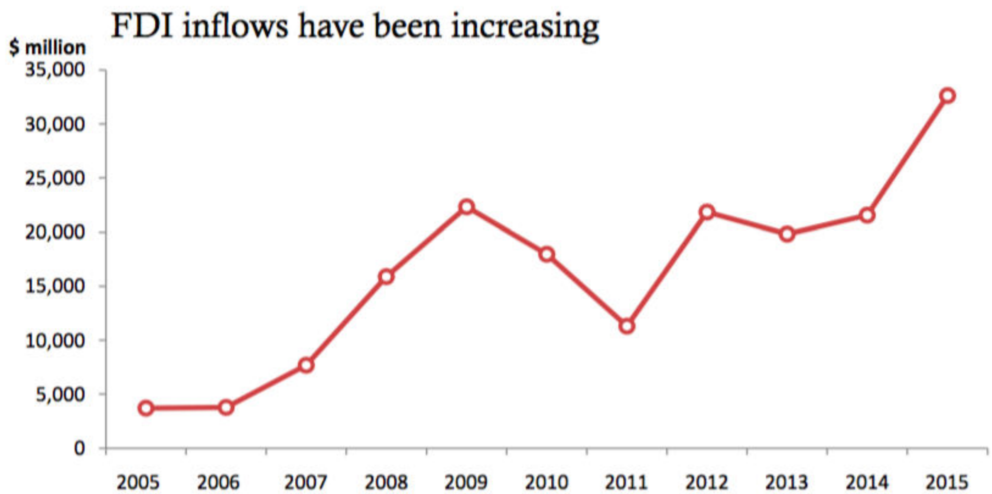
Narendra Modi's `**Make in India**' initiative brings in over $100 billion dollars since the launch back in September, 2014. The `Make in India' initiative was launched with the aim of promoting India as an important investment destination and a global hub for manufacturing, design, and innovation.

Sl.No.	Financial Year	Total FDI inflow (in US$ billion)	Growth
1	2012-13	34.30	
2	2013-14	36.05	5.10%
3	2014-15	45.15	25.24%
4	2015-16	55.46	22.83%

As per the Ministry of Commerce & Industry, during the period October, 2014 to May, 2016 – FDI inflow has also increased by 37% from US$ 62.39 billion to US$ 85.75 billion.
Lion's share of the FDI Equity inflow goes to Services Sector followed by Telecommunications and Drugs & Pharmaceuticals.

An overview of the significant changes in FDI regulations in 2015.

The financial year 2015 has been an exemplary one for foreign investments. Both FDI and FII have peaked in 2015. Net FDI inflows into India were a staggering $35billion, a 62 per cent jump from the previous fiscal year, which saw $21.6 billion. A report by the Japanese brokerage firm Nomura calculated that FDI forms 1.7 per cent of GDP, up from 1.1 per cent in the previous year.



2015 saw the highest FDI inflows into India. Amount in USD million. Data source: RBI,

- The report attributes the higher net FDI to two factors: growing investor confidence in the country and lower outbound FDI following weak balance-sheet of domestic companies coupled with a weak global growth outlook. “We expect FDI inflows to pick up further in FY 2016, driven by an improving domestic growth outlook, recent liberalisation of FDI limits and government efforts to improve the ease of doing business,” the report says.
- A sector wise breakup of the FDI inflows reveals interesting information. FDI into manufacturing, which the government has been trying to promote, has been modest. The auto industry has been an exception. Telecom, pharma and financial and business services were the largest recipients over the first three months of this fiscal year. The report speculated that some of the inflow was due to fund-raising in the e-commerce sector.
- The government’s ‘Make in India’ campaign and higher FDI in the defence, insurance and other sectors are likely to see a further fillip in the net inflows.

- The government's move to put most of the sectors onto the automatic route and out of the RBI purview, as part of the grander plan for FDI liberalisation, has helped immensely. Further, increased caps on many sectors such as defence and insurance have helped.
- FDI limits have been hiked in teleports (uplinking hubs), DTH (direct-to-home) and cable networks to 100 per cent with government approval required beyond 49 per cent. Further, news and current affairs TV channels and FM radio companies can now bring in up to 49 per cent FDI under the government route compared with 26 per cent earlier. For non-news and down-linking of TV channels, 100 per cent FDI has been permitted under the automatic route.
- Apart from increasing the ceiling, the government has undertaken other steps towards FDI liberalisation. Some of them are:
- Companies need not approach the Foreign Investment Promotion Board (FIPB), which is the nodal agency for attracting foreign investment, for M&As in sectors where FDI is allowed under the automatic route.
- The circular also said the government permission will not be required for issuing ESOPS (employees' stock option scheme) in sectors under the automatic route.
- Allowed the Foreign Investment Promotion Board (FIPB) to clear proposals up to Rs 5,000 crore from Rs 3,000 crore earlier.
- In construction industry, where India has traditionally fared poorly, area restriction (20,000 sq m) and minimum capitalisation requirement of $5 million to be brought in within six months of commencement of business have been removed. Further, foreign investors can exit and repatriate investments before a project is completed, but with a lock-in of three years.
- In banking, the government has introduced full fungibility, meaning FIIs/ FPIs/ QFIs can now invest up to the sectoral limit of 74 per cent subject to the condition that there is no change in control and management of the private bank.
- Manufacturers have been allowed to sell their products through e-commerce without government approval.
- Another major booster for companies such as IKEA, a single-brand retail company with 100 per cent FDI, has come in the form of dilution in sourcing norms. Earlier, such

companies had to ensure sourcing to the extent of 30 per cent of the value of goods from the date of FDI receipt. Now, it has been changed to opening of the first store.

- In case of “state-of-the-art” and “cutting-edge technology” ventures under the single-brand route, sourcing norms have been relaxed. Further, single-brand retail companies can also undertake e-commerce business, not allowed at present.

Economic Survey 2015-16 Measures Taken under ‘Ease of Doing Business’

* The process of applying for Industrial Licence (IL) and Industrial Entrepreneur Memorandum (IEM) has been made online and this service is now available to entrepreneurs on a 24x7 basis at the eBiz website.

* Twenty services are integrated with the eBiz portal which will function as a single window portal for obtaining clearances from various governments and government agencies.

* Notification has been issued by Directorate-General of Foreign Trade (DGFT) to limit number documents required for export and import to three.

* The Ministry of Corporate Affairs has introduced an integrated process of incorporation of a company, wherein applicants can apply for Director’s Identification Number (DIN) and company name availability simultaneous to incorporation application [Form INC-29].

* The Companies (Amendment) Act 2015 has been passed to remove requirements of minimum paid-up capital and common seal for companies.

* Application forms for Industrial Licence (IL) and Industrial Entrepreneur Memorandum (IEM) have been simplified.

* Defence products’ list for industrial lincencing has been issued, wherein a large number of parts/components, castings/forgings, etc. have been excluded from the purview of industrial licencing.

* Similarly, dual-use items, having military as well as civilian application (unless classified as defence item), will also not require ILs from the defence angle.

* The Ministry of Home Affairs has stipulated that it will grant security clearance on IL applications within 12 weeks.

* An Investor Facilitation Cell has been created under Invest India to guide, assist and handhold investors during the entire life-cycle of the business.

* The process of applying for environment and forest clearances has been made online through the Ministry of Environment and Forests and Climate Change portals.

* Registration with the Employees Provident Fund Organization (EPFO) and Employees State Insurance Corporation (ESIC) has been automated and ESIC registration number is being provided on a real-time basis.

* A unified portal for registration of units for Labour Identification Number (LIN), reporting of inspection, submission of returns and grievance redressal has been launched by the Ministry of Labour and Employment.

* A report titled ‘Assessment of State Implementation of Business Reforms’ was released on September 14, 2015. It reports the findings of an assessment of reform implementation by states by the DIPP, Ministry of Commerce and Industry, Government of India, with support from World Bank group and KPMG. This assessment has been conducted to take stock of reforms implemented by states in the period January 1 to June 30, 2015 based on a 98-point action plan for business reforms agreed between the DIPP and states/Union Territories (UT) and rank them according to the ease of doing business.

Projections of the Economic Survey 2015-16 - IV

Foreign Direct Investment

Foreign Direct Investment (FDI) is an important driver of economic growth as it leads to productivity enhancement and is a major source of non-debt financial resources and employment generation.

India's net FDI inflows are expected to rise further this fiscal to $ 38 billion on emergence of some positive signs such as regulatory easing in some select sectors and reform measures initiated by the government. Net FDI in 2015-16 stood at around $ 36 billion against $ 31 billion for 2014 -15. This is a reflection of progressive policy reforms and the recent regulatory liberalisation in select sectors and the country is likely to see a net FDI flow of $ 38 billion this fiscal, provided some of the announcements made in recent times materialises.

Recent major FDI announcements include:

1) Foxconn's investment in projects valued at $ 5 billion in over the next 2 to 3 years;

2) GE and Alstom signed a $ 5.9 billion worth of joint ventures with Indian Railways which will boost railway infrastructure.

The sectors that benefited out of the liberalisation policy on FDIs include:-

(1) Defence (2) Real Estate (3) Construction (4) Private banking (5) Civil aviation

(6) Single brand retail (7) News broadcasting

FDI inflows into India come mainly from the following 5 countries:-

(1) Singapore (2) Mauritius (3) Netherlands (4) US (5) Japan

Statement containing data of FDI inflows to major sectors from the above countries (in per cent) from 2011-12 to 2015-16 (November) is given below.

FDI Inflows to Major Sectors from Top Five Host Countries (in percent) from 2011-12 to 2015-16 (November)

Sectors	Singapore	Mauritius	Netherlands	US	Japan
Services sector	18.6	18.9	15.4	19	20
Computer software and hardware	13.8	6.2	3.2	9.8	1
Trading	11.8	2.4	10	3.2	4.6
Telecommunications	8.6	11.5	0.3	2	0.1
Drugs & pharmaceuticals	6.6	1.0	0.6	2	3
Power	5.0	6.1	2.7	4	0.3
Construction (infrastructure)	3.5	3.9	0.2	3.5	0.5
Hotel tourism	2.3	10.6	0.6	0.8	0.1
Automobiles	1.9	1.5	8.7	17.8	21
Chemicals	NA	1.6	8.9	1.8	2.7
Petroleum and natural gas	0.7	1.1	8.4	0.1	1.2

State-wise FDI inflows during April 2014-November 2015 is also given hereunder:-

State-wise FDI Inflows during April @014 to November 2015

Sl No.	States covered	Amount of FDI ($ Million)			Percentage of total FDI
		2014-15	2015-16	Total	
		April-March	April-November		
1.	Delhi	6874.95	9401.73	16276.68	29.20
2.	Maharashtra	6361.09	4875.81	11236.89	20.16
3.	Karnataka	3443.89	3266.48	6710.36	12.04
4.	Tamil Nadu	3817.69	1889.15	5706.85	10.24
5.	Gujarat	1531.15	1330.63	2861.78	5.13
6.	Andhra Pradesh	1368.72	707.72	2076.43	3.73

Out of FDI equity inflows of $ 24.8 billion during 2015-16 (April-November), more than 60 per cent have come from two geographically small countries named Singapore and Mauritius. These inflows needs perhaps to be examined more closely to determine whether they constitute actual investment or are diversions from other sources to avail of tax benefits under the Double Tax Avoidance Agreement that these countries have with India.

Measures taken by GOI

The government has taken series of measures to improve "Ease of Doing Business" in the country. Existing rules have been simplified and Information Technology introduced to make governance more efficient and effective. Large improvements in World Economic Forum and World Bank Rankings testify to the reforms implemented in this regard. This improvement manifests the effectiveness of series of small steps taken by the government to foster an investment-friendly environment. India was 142 rank out of 158 countries, as per World Bank findings in "Ease of Doing Business" and at present has moved 130th rank.

CONCLUSION

The study made an attempt to analyse the impact of 'Make in India' initiative launched by government of India to liberalise trade on FDI inflows in India in various years across various sectors. The study used secondary data for the purpose of attainment of the aforesaid objective. The results of the tables revealed that there has been significant increase in the FDI inflows after the introduction of this initiative. This increase has been across various sectors, from different countries, in different time periods. The results thus revealed that New FDI policy helped in increasing FDI inflow across various sectors. The government is moving ahead with 'Make in India' India initiative by relaxing the sectors which were earlier not in the purview of New FDI policy. This will help significantly in ensuring balanced growth across various sectors throughout the country.

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