

A Study of Foreign direct investment in India (2016-17 and 2017-18)

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ABSTRACT

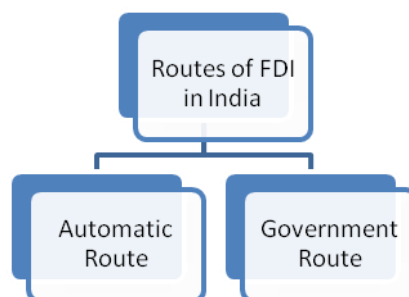
In the overall development of a country foreign direct investment play a significant role. When domestically available capital of a country proves insufficient to acquire the new development opportunities then it needs to take the help of foreign investment. Around the world both developed and developing countries are continuously taking concerted efforts to attract more FDI in their economies. Developing countries are measure point of attraction for developed countries to invest because of improper exploitation of resources in these countries. India becomes a favourable destination for the foreign investor from some past years. India can catch the attention of large amount of new foreign direct investment than as compare to its past because of considerable market potential and more development opportunities. The purpose of this paper is to explain the sector wise and monthly inflow of foreign direct investment of year 2016-17 and 2017-18 in India and Some recent initiatives taken by government are also discussed in this paper.

1. Introduction

For developing economies investment has always been a matter of concern. Due to globalisation all the countries are engaged in liberalising the policies to attract investment from foreign countries which have abundance capital possessions. Developed countries are engaged in searching new markets for better investment opportunities where there labour is available at low cost scope of product is more and profit potential is high. Investment made by residents of a country in the production process and financial assets of another country is called foreign investment. Its impact on the growth and development of any economy differs country to country. For a country to gain access to foreign capital it provides a channel. Foreign investment in a country can come in two different forms: 1. FII (Foreign institutional investment) and 2. FDI (Foreign direct investment). Generally FII (Foreign institutional investment) is made for short period so that called short term investment, mostly in financial markets. But foreign investment made in production activities directly is called FDI and it is medium or long term in nature. As per the definition given by IMF, FDI is "Investment that is made to acquire lasting interest in an enterprise operating in an economy other than that of investor. The investor's purpose is being to have an effective voice in the management of enterprise." In economics dictionary (Graham Bannock et.al) FDI is defined as – "investment in a foreign country through the acquisition of a local company or the establishment there of an operation on a new (Greenfield) site." Foreign direct investment in India depends on majorly these macro economic variables: GDP, inflation rate and scientific research (Singhania and Gupta, 2011). Foreign direct investment plays a significant role to sustain the economic growth of a country. In other words there exists a causality relationship between the FDI and economic growth (Kaur, Yadav & Gautam, 2013).

2. Routes of FDI in India

In an Indian company FDI may be accepted under two different routes:



Automatic Route: under the automatic route, there is no requirement of prior approval of RBI or government of India for FDI in various sectors or activities.

Government Route: for FDI under the government route there is requirement of prior approval of the Government which can be considered by the Foreign Investment Promotion Board (FIPB), Department of Economic Affairs, and Ministry of Finance. Activities or sectors which are not covered under automatic route come under the government route.

3. A brief review of literature

Zafar, hmedat & ahmad (2017) in their research study entitled 'an analytical study on foreign direct investment (FDI) and its relative impact on Indian economy' tried to analyze the recent government initiative and developments in foreign direct investment in India. They also tried to check impact of those development and initiatives on growth of the economy. The study found that foreign capital works as a supplement to domestic capital. It helps in adoption of new technology, to create new employment opportunities and to attain economies of scale in host country. The findings of the also reveals that amendment in FDI norms and new policy initiatives have

generated encouraging outcomes and consequently have accelerated the economic growth.

Gautam (2016) in their research named 'FDI in India; past, present and future' tried to analyze the current and historical situation of foreign direct investment inflows in India and also highlight the some key area where it need to invest more than others. The study found that cost advantages, privatization and deregulation are the positive factors to attract more FDI inflows and political instability, security risk, lack of infrastructure and intellectual property rights & piracy are the factors which are hurdles to inflows of FDI in India. They suggest redesigning FDI policy for better utilisation of FDI inflows for the enhancement of domestic production and exports.

Vyas (2015) conducted a study entitled 'An analytical study of FDI in India (2000- 2015).' The study found that FDI plays a very important role in development of the country and sustained economic growth through job creation and expansion of manufacturing activities. The study also found that concentration of FDI is more in computer, hardware & software, drugs & pharmaceutical companies as compared to others. The study concluded that FDI helps to create employment opportunities and to improve small scale industries in India.

Badi and Kharbanda (2014) in their study named 'analysis of foreign direct investment in India – problems and challenges' analyzed that sector wise status of FDI in India and identified the reasons which are responsible for lesser India's attractiveness as an FDI destination. The study found that in India inflows of FDI is below its potential. India is receiving much lesser FDI inflows as compared to other developing economies like china and Brazil. The study concluded by analysing the Global Competitive Report (2013- 2014) that India stands on 60th rank out of 148 countries which is much below the other developing countries.

Malhotra (2014) conducted a study entitled 'Foreign Direct Investment: Impact on Indian Economy.' The study highlights the growth and pattern of FDI in India, some recent development of FDI and govt initiatives taken towards FDI. The study found that FDI had a positive impact on the Indian economy because FDI act as a supplement for domestic capital. It also helps in technology and skill upgradation of existing companies and setting up new companies.

Singh, Chadha & Sharma (2012) studied through their research named 'Role of Foreign Direct Investment in India: An Analytical Study' the FDI's significance for developing countries to overcome the gap between the saving and Investment. By analyzing the saving and investment rates in India from the report of CMIE economic survey (2012) they

found that India is suffering from low capital formation and scarcity of financial resources because of major dependence on external financial resources. They also found that 33.05 percent of total cumulative inflow of FDI in financial sector, Real estate, insurance sector and Business services in study period in India. The study concluded that as compared to developing and under developing countries, developed countries are attracting more foreign investment inflows.

4. Objectives

- To study the pattern of FDI inflows in India
- To study the country wise and sector wise inflows of FDI in India
- To discuss the recent initiatives taken by govt towards FDI

5. Research methodology

Research design used for this study is descriptive in nature. The secondary data is used for the study which is collected from various research papers, websites, journals, articles, news papers and reports of department of industrial policy and promotions etc.

6. Flows of foreign direct investment in India

From April, 2000 to march, 2017 cumulative amount of FDI inflows is US \$484,357 million and at the end of financial year 2017-18 (i.e., from April 2000 to March 2018) is US \$546,452 million. Cumulative amount of FDI inflows includes equity capital, reinvested earning and other capital. It is increased by US\$62,095 million in 2017-18 from last year .By excluding, amount remitted through RBI's NRI schemes amount of FDI equity inflows at the end of the year 2016-17 is Rs.1,787,022 Crore or us\$ 331,991 million and at the end of the year 2017-18 is Rs.2, 075,911 Crore or US \$376,848 million. Inflow of FDI during the year 2016-17 & 2017-18 is represented by the following table both in Indian rupees and US \$. Total inflows of FDI in 2016-17 is Rs.291, 696 Crore or US\$43,478million and in 2017-18 is Rs.288, 889 Crore or us\$44,857million. Total inflow of the FDI is decreased by Rs.2, 807 Crore in terms of rupees and increased by US\$ 1379 million in the terms of US dollar. Percentage growth in FDI inflows over the previous year is also shown in the table. In terms of rupees growth for 2016-17 is (+11%) and for 2017-18 is (-1%) and in terms of US \$ growth for 2016-17 is (+9%) and for 2017-18 is (+3%). We can see that % growth is much lesser in 2017-18 as compare to 2016-17. But in last quarter of the 2017 -18 total FDI inflows is US\$1,882 million more than the last quarter of 2016-17. Total FDI inflows in the 4th quarter of the year from Jan, 2018–March 2018 is US\$14,076 million and from Jan 2017 to March 2017 is us\$12,194million. Total FDI inflows include equity inflows, reinvested earning and other capital'.

Monthly FDI equity inflows in financial year 2016-17 & 2017-18

Sr No.	Financial year 2016-17	FDI inflows in Rs. (in US \$)	Financial year 2017-18	FDI inflows in Rs. (in US \$)
1	Apr 2016	Rs. 22,345 Crore (US\$ 3,362 million)	Apr 2017	Rs.20,826 Crore (US\$3,339 million)
2	May 2016	Rs 13,271 Crore (US\$ 1,983 million)	May 2017	Rs 26,159 Crore (US\$4,060 million)
3	Jun 2016	Rs 15,111 Crore (US\$ 2,245million)	Jun 2017	Rs 20,101 Crore (US\$3,119 million)

4	Jul 2016	Rs 27,430 Crore (US\$ 4,081 million)	Jul 2017	Rs 31,112 Crore (US\$4,827 million)
5	Aug 2016	Rs 32,150 Crore (US\$ 4,803 million)	Aug 2017	Rs 51,198 Crore (US\$8,004 million)
6	Sep 2016	Rs 34,366 Crore (US\$ 5,149 million)	Sep 2017	Rs 13,632 Crore (US\$2,115 million)
7	Oct 2016	Rs 41,353 Crore (US\$ 6,195million)	Oct 2017	Rs 17,454 Crore (US\$2,682 million)
8	Nov 2016	Rs 31,631 Crore (US\$ 4,677 million)	Nov 2017	Rs 20,019 Crore (US\$3,086 million)
9	Dec 2016	Rs 22,727 Crore (US\$3,347 million)	Dec 2017	Rs 30,956 Crore (US\$4,819 million)
10	Jan 2017	Rs 27,067 Crore (US\$ 3,976 million)	Jan 2018	Rs 15,386 Crore (US\$2,418 million)
11	Feb 2017	Rs 8,118 Crore (US\$ 1,210 million)	Feb 2018	Rs 20,478 Crore (US\$3,181 million)
12	Mar 2017	Rs 16,126 Crore (US\$2,448 million)	Mar 2018	Rs 21,569 Crore (US\$3,317 million)
	Total FDI inflows in 2016- 17	Rs 291,696 Crore (US\$43,478 million)	Total FDI inflows in 2017- 18	Rs 288,889 Crore (US\$44,857 million)
	Total FDI inflows in 2015-16	Rs 262,322 Crore (US\$40,001 million)	Total FDI inflows in 2016-17	Rs 291,696 Crore (US\$43,478 million)
	% Growth over previous year	+11% (+9%)	% Growth over previous year	-1% (+3%)

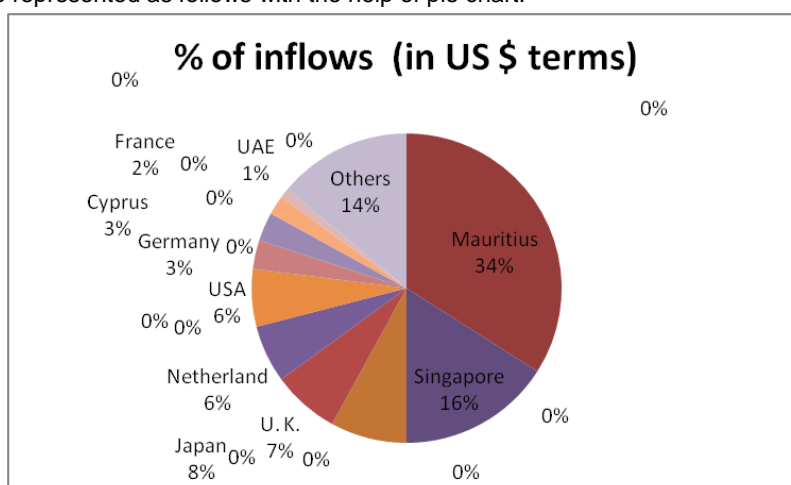
Source: FDI statistics, Department of Industrial Policies and Promotion, 2017 &2018.

Top investing countries in India during the financial year 2016-17 and 2017-18

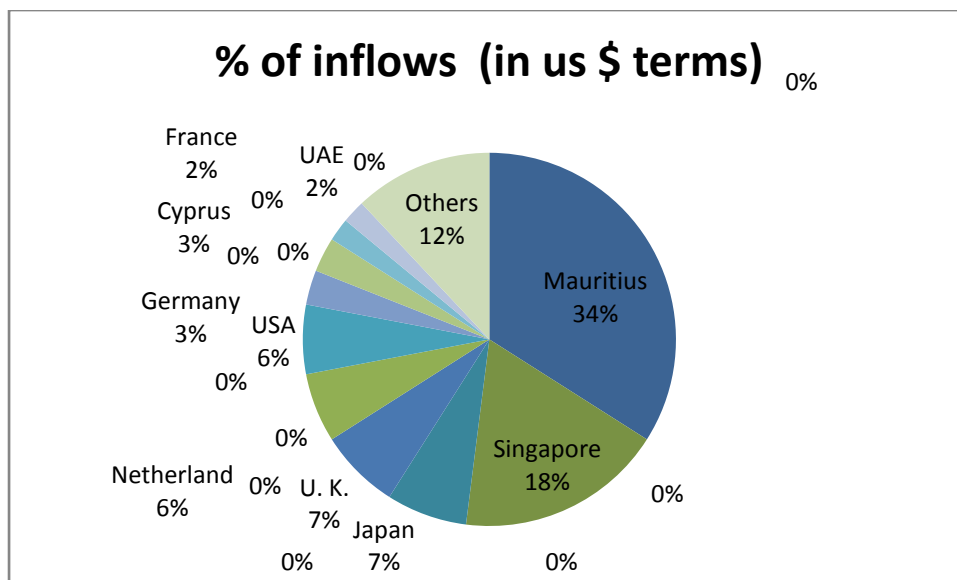
Sr No.	Country	Total FDI inflows during the 2016-17 in Rs. Crore (us\$ million)	% of inflows (in US \$ terms)	Total FDI inflows during the 2017-18 in Rs. Crore (us\$ million)	% of inflows (in US \$ terms)
1	Mauritius	105,587 (15,728)	34%	102,492 (15,941)	34%
2	Singapore	58,376 (8,711)	16%	78,542 (12,180)	18%
3	Japan	31,588 (4,709)	8%	10,371 (1,610)	7%
4	U. K.	9,953 (1,483)	7%	5,473 (847)	7%
5	Netherland	22,633 (3,367)	6%	18,048 (2,800)	6%
6	USA	15,957 (2,379)	6%	13,505 (2,095)	6%
7	Germany	7,175 (1,069)	3%	7,391 (1,146)	3%
8	Cyprus	4,050 (604)	3%	2,680 (417)	3%
9	France	4,112 (614)	2%	3,297 (511)	2%
10	UAE	4,539 (675)	1%	6,767 (1,050)	2%
11	Others	27,726 (4,139)	14%	40323 (6260)	12%

Source: FDI statistics, Department of Industrial Policies and Promotion, 2017 & 2018.

The above table can be represented as follows with the help of pie chart:



FDI inflows from top investing countries in 2017-18.



FDI inflows from top investing countries in 2017-18.

The above table and charts represents the top investing countries through FDI in India. We can see from the table that Mauritius is the country which has highest (34%) investment in India. Singapore is second highest foreign investor in India having 18% investment. Singapore has increased his share in FDI in India by 2% or by Rs.20,166 Crore orUS\$ 3,469 million as compared to last year and Netherlands is at third position in

top investors of FDI in India but it decreased its investment in India by Rs.4,585 Crore or US\$ 567 million. UAE has also increased its investment through FDI in India by 1% or by Rs.2,228 Crore orUS\$375 million. Other countries like UK, Japan, USA, Cyprus and France etc has decreased their investment in 2017-18 as compared to 2016-17.

Sector wise inflows of FDI in 2016-17

S.no	Sectors	FDI inflows in 2016-17 in Crore and (US\$ million)	% of total inflows in US \$ terms
1	Services	58,214 (8,684)	18%
2	Computer software and hardware	24,605 (3,652)	7%
3	Construction developments: townships, housing build –up infrastructure	703 (105)	7%
4	Telecommunications	37,435 (5,564)	7%
5	Automobile industries	10,824 (1,069)	5%
6	Drugs and pharmaceuticals	5,723 (857)	4%
7	Trading	15,721 (2,338)	4%
8	Chemical(other than fertilizer)	9,397 (1,393)	4%
9	Power	7,473 (1,113)	3%
10	Miscellaneous industries	9,647 (1,440)	3%

Source: FDI statistics, Department of Industrial Policies and Promotion, 2017.

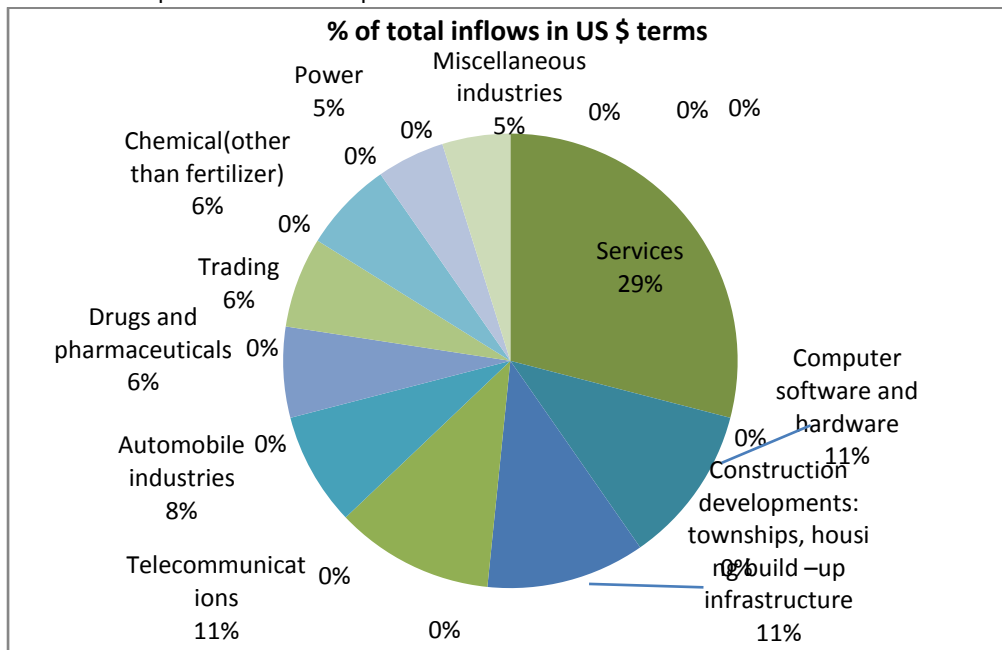
Sector wise inflows of FDI in 2017-18

S.no	Sectors	FDI inflows in 2017-18 in Crore and(US\$ million)	% of total inflows in US \$ terms
1	Services	43,249 (6,709)	18%
2	Computer software and hardware	39,670 (6,153)	8%
3	Telecommunications	39,748 (6,212)	8%
4	Construction developments: townships, housing build –up infrastructure	3,472 (540)	7%

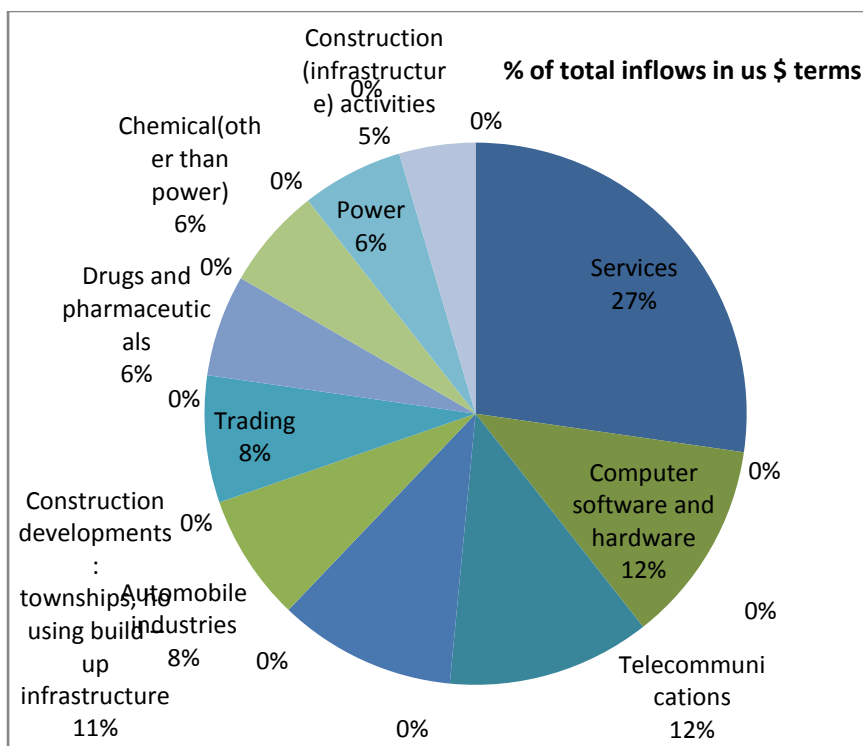
5	Automobile industries	13,461 (2,090)	5%
6	Trading	28,078 (4,348)	5%
7	Drugs and pharmaceuticals	6,502 (1,010)	4%
8	Chemical(other than fertilizer)	8,425 (1,308)	4%
9	Power	10,473 (1,621)	4%
10	Construction (infrastructure) activities	17,571 (2,730)	3%

Source: FDI statistics, Department of Industrial Policies and Promotion, 2018.

The above tables can be represented with the pie charts as follows:



For the financial year 2016-17



For the financial year 2017-18

The above tables and pie charts show the sector wise FDI inflows in India. We can see from the above tables and graphs that most of the FDI in India is attracted by services sector. In cumulative FDI inflows the share of this sector is 29% in 2016-17 and is 27% in 2017-18 of inflows of total foreign direct investment. In the services sector total FDI inflows is decreased by us\$1,976 million and its share in cumulative FDI inflows is decreased by 2%. Financial services, Banking & Insurance services, Courier services, R&D, Non-Financial / Business, Outsourcing, Tech. Testing and Analysis are included in the services sector. The Telecommunications is the second sector attracting highest FDI inflows which have 12%

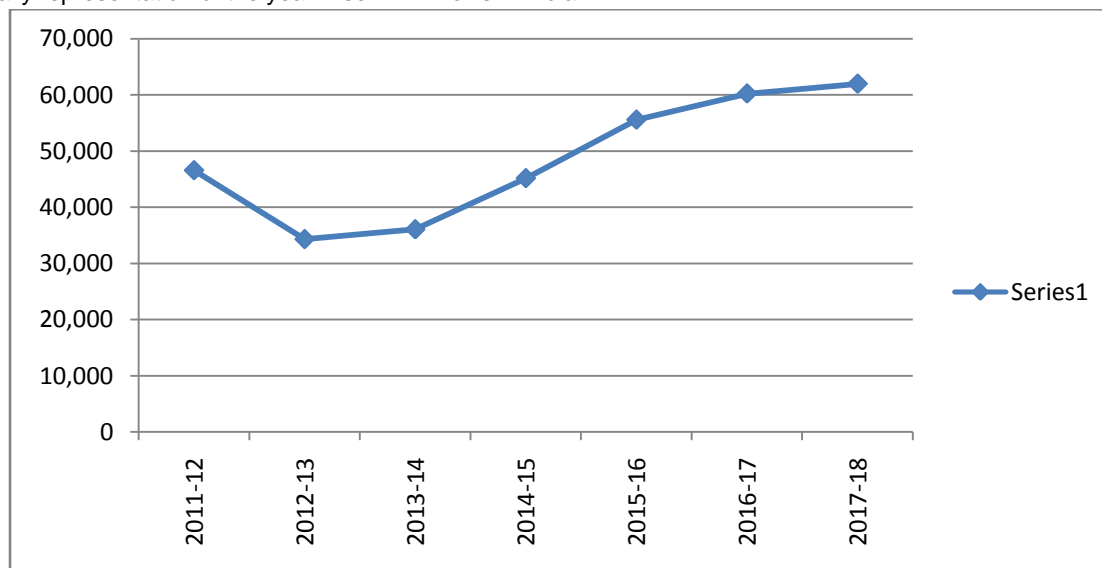
share in cumulative FDI inflows in 2017-18. In Computer software and hardware, Telecommunications, construction developments: township, housing, build-up infrastructure automobile industries and trading FDI inflows is increased by us\$2,501, 648, 435, 1,021 and 2,010 million respectively in 2017-18 from the last year. Computer software and hardware, construction developments: township, housing, build-up infrastructure, automobile industries, trading, drugs and pharmaceuticals, chemicals (other than fertilizers), power and construction activities have 12%, 11%, 8%, 8%, 6%, 6%, 6% and 5% share in cumulative FDI inflows in India respectively in 2017-18.

7. Financial year wise inflows of FDI India

S. no.	Financial year (April 1 st to March 31 st)	Total FDI inflows	% growth over previous year (in us\$ terms)
1	2011-12	46,556	(+) 34%
2	2012-13	34,298	(-) 26%
3	2013-14	36,046	(+) 5%
4	2014-15	45,148	(+) 25%
5	2015-16	55,559	(+) 23%
6	2016-17	60,220	(+) 8%
7	2017-18	61,963	(+) 3%

Source: FDI statistic, department of industrial policies and promotion, 2018.

Graphically representation of the year wise FDI inflows in India



This table represents the FDI inflows in India from financial year 2011-12 to 2017-18. This graph represents the increasing and decreasing trends of FDI inflows during this period. We can see from the above graph that in the year 2012-13 inflows of FDI is decreased from previous year. In the 2013-14 it is increased but by a small amount. After this period it shows an increasing trend upto the year 2017 -18. But upto 2015-16 it is increased from increasing rate and after that it is increased from decreasing rate.

In India during the 2017-18 total FDI investment is US\$ 44.86 billion (as per FDI factsheets of department of industrial policy and promotion). It indicates that government policies

regarding relaxation of FDI norms and its efforts to promote ease of doing business is yielding results. Data from the FDI factsheet of DIPP shows that services sector is attracting highest FDI-US\$6.71billion and the telecommunication is on second position, having FDI inflows-US\$ 6.21billion after the telecommunication sector, computer software and hardware has attracted more FDI inflows-US\$6.15 billion. Investment from Mauritius is major source of the FDI in India. It has an investment ofUS\$15.94 billion in India through FDI. After that Singapore (US\$12.18 billion) and Netherlands (US\$2.80 billion) have highest FDI inflows in India. Maximum FDI inflows in India was in the month of august 2017 (US\$8.00 billion) and July 2017(US\$4.82 billion). In the last quarter of the year (Jan

2018 to march 2018) in the month of March FDI inflows is more (US\$3.32 billion) as compare to other months.

8. Recent development in FDI

Due to liberalisation of FDI norms by the government of India entry of FDI is increased from some last. Some recent development / announcements of foreign direct investment in India are as follows:

- In the state of north-east region of India 39 (MoUs) were signed for investment to Rs. 4-5 thousand Crore (US\$ 612-765 million) in November 2017.
- FDI proposals of Damro Furniture and Super Infotech Solutions in retail sector was approved by DIPP in December 2017, while two proposals of worth Rs. 532 Crore(US\$ 81.4 million) were approved by Department of Economic Affairs, Ministry of Finance.
- With the objective of investment in Gujarat, 15 Japanese companies (including Moresco, Toyoda Gosei, Topre and Murakami) signed (MoUs) in September 2017.
- As per the statement of Varun Chaudhary, Executive Director of CG Corp Global, CG group is planning to invest in food and beverage business of India an amount of Rs. one thousand Crore (US\$ 155.97 million) by 2020.
- Three FDI proposals of foreign investment of amount Rs. 24.56 Crore (US\$ 3.80 million) were closed by the Department of Economic Affairs of Indian government in Oct, 2017.
- International financial corporation (IFC)is planning to invest about US\$ 6billion in India by 2022. It is a member of World Bank group and its focus of investment in India is various renewable and sustainable energy programmes.
- For setting up the multi- format stores and experience centres in the state of Maharashtra, Ikea is planning to invest a amount upto Rs. 4 thousand Crore (US\$612 million). It is announced by Ikea in Feb, 2018.
- 77% stake in Flipcart is acquired by Walmart in May, 2018 with the consideration of us\$ 16 billion
- Department of telecommunication approved idea's appeal for 100% FDI followed by its Indian merger with Vodafone in June 2018 with the purpose to make Vodafone idea the leading telecom operator in India.

9. Government initiatives

Foreign direct investment is a necessity in today's world for development of any economy of a country whether it is a developing country or a developed country. Indian government is taking many initiatives to encourage the FDI in various manufacturing & services sector and consequently to sustain

the economic development. Some of them are as follows which are recently taken.

- Foreign airlines are permitted to invest in air India by government of India in Jan 2018 up to 49% with the government approval. But directly or indirectly these investment by foreign airlines cannot be more than 49%.
- For foreign direct investment in Real estate broking services there is no requirement of government approval up to an extent of 100%. In others words now it is under automatic route.
- With the intention to increase Japanese investment in India, states are asked to put an attention towards strengthening the single window clearance system for fast-tracking approval process by government of India, in Sep 2017.
- 100% foreign direct investment in single brand retail is allowed by the government of India through automatic route, in Jan 2018.
- In order to generate employment and to promote the make in India initiative Indian government is consulting with stakeholders to make easy FDI entry in defence sector under the automatic route from 49% to 51%.
- The approval mechanism for foreign direct investment is made easy by doing away with the approval of department of revenue, by ministry of commerce and industry, government of India and mandating clearance of all proposals requiring authorization within 10 weeks after the receipt of application.

10. Conclusions

Foreign direct investment policies are gradually liberalised by the Indian government to create a centre of attention of more FDI inflows and to make market more investor friendly. This study shows the FDI in India during the financial year 2017-18. Foreign direct investment inflows during the period 2011-12 to 2017-18 are also mentioned in the study. It is decreased in 2012-13 but after that it shows an increasing trend. But in 2017 from April to December FDI is increased by only 0.27% in India. In FDI confidence index 2018 India stands on 11th rank while it was on 8th rank in 2017 and on 9th rank in 2016. Position of India in FDI confidence index is continuously decreasing and now it fell out of top 10. Now Italy has entered in top10 in FDI confidence index. USA stands on 1st rank in FDI confidence index 2018. The reason for this declined position of India may be economic and regulatory changes in Indian economy. Despite of gradually liberalisation of FDI policies in India, declined position of India in FDI confidence index indicated that there is a need to put more attention on FDI by the government of India. So government should take more initiative to attract more FDI in Indian economy.

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