

**AN ANALYTICAL STUDY ON FOREIGN DIRECT INVESTMENT (FDI) AND ITS  
RELATIVE IMPACT ON INDIAN ECONOMY**

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**Abstract**

*In present global competitive economic circumstances no country in the world is self sufficient and self reliance. Most of them largely depend on other nations in some way. Advance economy with surplus reserves want to integrate other nations who have minerals reserves and skilled labours. Emerging economy in hope to become self sufficient requires fund for their economical promotion and consolidation, undeveloped economies requires funds for their survival. Thus financial integration through FDI played paramount role and accelerate the respective economies. With growing globalisation most of the Asian nations have welcomed the FDI and witness surge in its inflow. India with conservative approach to globalisation has been found latecomer to the FDI. Its overall market potential, cheap skilled workforce with mineral reserves and safe marine routes along with liberalised policy regime sustained its attraction as a most preferred destination for foreign investors. Thus, the government to attract more FDI re-amended its policy in 2015 - 16 and took several policy initiatives. Considering all economical aspects important for nation integrated growth and overall development this study has been undertaken by the author's to examine and evaluate the impact of amendments and policy initiatives on nation's economy. For the study over all data and sector wise data on FDI from 2011to 2016 has been taken. The collected data has been simply analysed and interpreted, in last conclusion and recommendation has been given.*

*Jel Code: F31, F33, F36, F38, F43, F62, E41, E42, E44, E5, 1E52, E62, F01, F02, H21, H24, H25*

*Key words: FDI, Economic Growth, Economic integration, Sectorial Growth*

## I. INTRODUCTION

Nation industrial infra, its growth and development is a backbone of its economy. It reflects nations self sufficiency's which is herculean task and requires judicious approach to justify factors involve. It imparts the required dynamism to the economy which transforms the socio-psychological environment of its historical, traditional economic and social structure. The nation's economy and its social growth depend upon efforts, capital and knowledge. Among these three factors capital has been recognised as a most required and important. Its formation involves multiple activities which are saving, finance and investment. To form capital for economic activities there is a need of stable financial sector and within financial sector banking sector play crucial role. Due to liberalization, globalization, deregulation, competitive disintermediation and economic intensification competition has grown and every country want to become self reliant and self sufficient and thus demand for financial resources grown to many fold. To cater the economic demand, socio-political competition, economic complexities, increasing population, unpredictable challenges and to capitalize the macroeconomic environmental opportunities at optimal level Government of India (GOI) adopted cataclysmic structural and continuous reforms in Indian macroeconomic system. It started playing a parental role by stoking the engine of economic growth through garnering the internal and external resource in money supply and introduced policy of tectonic economic liberalization, globalization, digitalization and deregulation with metamorphic liberalized policy in financial sector which in result brought drastic change and ultimate revolution in Indian financial sector and transformed conservative financial sector into global at par and led to the emergence for new financial windows, non debt financial capital FDI, new banks, new instruments, new financial institutions and motivated foreign investors to invest in diversified industrial and manufacturing sector.

Government of India visualized corporate vision and mission and articulated core objectives of corporate financial requirement and liberalized the FDI rules and regulations. To provide strength to the tectonic changes in economic reforms and to accelerate the nation's overall economy government of India passes legislations, rules, regulations, ordinance and amendments in Foreign Direct Investment (FDI) law time to time and strategically enabled the domestic industrial and other economic sector to meet the financial requirement through diversified resources including FDI which is non debt financial capital and is widely preferred by the firms when they became multinational. With following the government policies and under the constant vigilance of regulators like RBI, SEBI and IRDA, Foreign Direct Investment (FDI) gradually occupied the core status in financing the economic activities. With liberalized FDI rules and restructured financial sector domestic industries and Indian corporate collectively explored untapped resources and found it more lucrative and transparent. Now Indian corporate is free to evolve their own system of financing working capital and can freely raise finances through foreign direct investment.

The financial management in India has changed drastically in scope and complexities due to

restructured financial policies. In Indian context FDI means the investment by non resident person or entity of India, in the capital of Indian entity or company, either by buying a company or by expanding operation of an existing business in target country. It is not a charity but in fact it is core profit making investment from other nations and multinational companies' savings. It is contrast to portfolio investment which is a passive investment in the securities of another country such as stock and bonds. Entire FDI are investment made by MNCs and other nation's savers with a time period consideration. The modern approach to fund the corporate economic activities is much wider than the traditional approach. In present competitive global economic environment and economic overlapping to dominate raising funds have become crucial and complicated. Financing is an art and service of managing money requires freedom to acquire funds with safety and transparency. Prior to liberalisation and globalization financing economic activities through Foreign Direct Investment (FDI) was very complicated. It was very much controlled by the government and was tough for corporate to arrange and manage FDI in free economic environment.

Businesses are considered as a socio-economic activity and embrace all section of society commonly for collective satisfaction. With growing globalisation economic activities and opportunities increases with diversification and opportunistic desire of society influenced the global business tremendously. Economies started crossing the political boundary and gradually become part of global economic structure. To maintain equilibrium between internal and external financing cost and global standard between demand and supply in present technologically competitive and metamorphic environmental growth within and outside the political boundary and to cater the global status requirement and to develop competitive strength business entities need financial resources which became possible through FDI. Private sector and corporate entities analysing their ability to handle risk and return factors and financial market conditions took the decision and started generating funds through FDI according to their market value, goodwill, and managerial efficiency. Foreign Direct Investment (FDI) became ready highbred financial option for corporate which can be effectively mobilized and productively utilized.

Generally FDI arrangements require more wider and complicated set of strategic, economic behavioural consideration which usually becomes motivating factor behind foreign direct investment. Its inflow increases the investment level in the host nation which multiplies the nation's economy and generates employment, income and savings. Its benefits are not immediate but can be achieved in future. It adjudicate complementary role by bridging the gap between domestic investment and savings. Its impact on nation's economy largely depends upon nation's regulated policies and the sector in which FDI has been directed and utilised. Returns on FDI depend upon longevity of investment. Many firms have long gestation period and require funds for long period and return in such firms is possible when they become operational. Foreign direct investment in stock market response immediately but this inflow is for short period of time and do not contribute in nations growth and development accept it appear in nations balance sheet. FDI which stay in nation's economy for some time only contribute in economic growth.

This paper is systematically organised in five parts. In first part introduction, second part literature review, third part objective of research methodology and recent amendments and policy initiatives, fourth part historical analysis and in fifth part finding conclusion and

recommendations are given.

## II. LITERATURE REVIEW

Every nation wants growth, development and prosperity. To attain all these there is need of self sufficient economic environment which is reflected and represented by the nation's balance industrialization. Achieving favourable economic condition is a herculean task and requires judicious approach to justify the factors involve. It could be possible only by adopting balance economic structure with research oriented growth and development. It is a core reality that nation's continuous growth consolidates its universal economic participation and requires continuous assessment which is carried out by the academicians, researchers and independent professionals. Researchers predict the future by revealing the obscure truth which become possible by comparing past and present. Every generation of researchers have tried to bring something new and contributed distinctly in their respective fields by presenting the past studies in a new way as required by the prevailing time period. A Large numbers of academicians and research scholars across the globe have worked on financial economics including FDI and their efforts, facts and finding have contributed to a great extend in social economics, trade and commerce. Their outcome explored multiple dimensions of FDI and they pave the way for future course of studies depending upon time period challenges and requirement. Most of the studies of early period were against the FDI, especially its investment in developing and developed nations. Some studies were supporting and encouraging the industrialist to invest in those nations where excess of raw material and skilled work force with ready market is available. To find out the reality of FDI this study is been taken by the researchers to examine and evaluate the impact of amendments and policy initiatives on nation's economy. The researchers will also critically analyse previous studies on the growth of FDI in different sectors and its general impact on developing and developed nation's economy, and the outcome of the study will set parameters for future studies in the respective field.

Empirical theorist like *Rondan (1960)* *Chenery* and *Strout* in their study argued that as far as developing countries are concerned, foreign capital inflows had a favourable effects on the economic efficiency and growth, *Kindlerberger (1969)* and *Hymer (1975)* in their study focused on various market imperfections, that is imperfections in product, factor and capital markets as the key motivating forces drawing FDIs, *Manning & Shea (1988)* in their study argued that there should be some strong economic rationale behind the incentives to attract the FDI. According to them that economic impact of FDI is dependent of what form it takes. This includes the type of FDI, sector, scale, duration, location of business, density of local firms in the sector and many other secondary effects. They further revealed that FDI might not only a way of doing money. By also a way of acquiring a certain control, both economical and political, in the host country, *Krugman, Obstfeld, (1994)*, in their study tried to distinguished two main types of international capital movement. First is international borrowing and lending which can be seen as inter temporal trade. The other part of international capital movement takes a different form, that of foreign direct investment, *Lipsey, Purois & Courant (1994)*, *Krugman, Obstfeld (1997)* in their respective studies argued that a distinctive feature of FDI is that involves not only a transfer of resources but also the acquisition of control. According to them in some cases the extension of control is the essential purpose of incoming foreign capital. This implicates a necessity to screen foreign investments on economic as

well as military grounds, *Krugman, Obstfeld, (1996)*, in their another study found that FDI was an important source of developing country external finance for about 25 years after World War II. They found that during the early 1980s direct investment declined in volume. They found that around 1994, FDI in developing countries like Latin America, Asia and Central and Eastern Europe made a comeback; *Bashir (1999)* in his tried to examine the relationship between FDI and growth in some MENA (Middle East and North African) countries, he found that FDI leads to economic growth and also found that effects varies across regions according to time, *IMF World Investment Report (1999)* produced the fact that FDI encourages development in many ways. It bring financial resources, which are scare in receiving country, it create job opportunities, it increases exports by developing efficiency and enhancing marketing opportunities, it increases the availability and reduce the cost of public utilities, consumption goods and investment goods, *Alam (2000)* in his study tried to make a comparison between India and Bangladesh. He found that FDI have appreciating impact on Indian economy and on its growth and in case of Bangladesh it is not satisfactory and comparatively far behind to India, *Dr Maathai K. Mathiyazhagan (2005)* in his study tried to examine the long run relationship of FDI with gross output, export and labour productivity in the economy at the sectoral level. The researcher found that results demonstrate that the flow of FDI into the sector has helped to raise the output, labour productivity and export in some sector but expected outcome is yet to come. The researcher also found that there is no significant co integrating relationship among variables like FDI, Gross output, Export and Labour productivity in the core sector of economy, *Martinkus, Lukasevicius (2008)* in their study found that idea of attracting foreign direct investors as a special efforts lies behind the economic rationale, *World Investment Report (2009)* revealed that FDI picture worldwide change according to prevailing time period. Amid a sharpening financial and economic crisis, global FDI inflows have made significant decline once again. The report produced the fact that in 2008 decline in FDI was historically high, that was (14%) in comparison to 2007. Preliminary data suggest that FDI fell a further 44% compared with their level 2008, *Adhikary (2011)* in his study tried to find out the relative impact of FDI on host country's exports, the rate of inflation, domestic demand and country's trade openness (export and import ratio). To find out the result he used the distributed delayed model and the causality test. The study found that during the year FDI influenced the volume of export to a great extent but on other side indicators like inflation rate, internal demand and trade openness improvises after three to four year of investment were made, *Agarwal, Khan and Mohammad Amir (2011)* in their study found that by increasing FDI by one percent the GDP of China increases by 0.07 percent and Indian GDP increases by 0.02 percent. The study reviled that impact of FDI on China is better than India which is due to political decision making ability and hierarchal hurdles, *Maram Srikanth & Braj Kishore (2011)* in their study tried to explain the impact of FDI equity inflows on Indian economy by using monthly data for the period April to March 2011, before and after the eruption of Global financial crises. They used "Granger Causality Test" to establish the linkages between FDI equity inflows and macro - economic variables. They found that there is a unidirectional reserve to FDI. Consequently Indian policy makers are encouraged to attract more FDI inflows into the country in order to give pace to industrial production, *Mustafa & Santhirasegaram (2013)* in their study examined the overall impact of FDI in pushing the growth and pace of Sri Lanka economy. For the purpose they used time series annual data for the period of 1978-2012. In addition they also implemented multiple regression models to estimate the impact of FDI on economic growth. By using all these tools and technique they found that actual impact of

FDI can be seen after time lag of two plus years, *Kuliaviene & Solnyskiniene (2014)* in their study tried to determine exclusive impact of FDI on Lithuanian GDP by using lag analysis. During the study they found that average lag was of two years, *Bhavya Malhotra (2014)* in his study tried to study the trends and pattern of FDI along with assessing the determinant of FDI Inflows. In his study he found that Indian economy has a tremendous potential and FDI has a positive impact. Further he found that FDI inflow supplements domestic capital along with technological development and efficiency, *Zafar, S.M.Tariq & Waleed Hemdat (2016)* in their study found that FDI flow in India has increased to many fold in comparison to past. They also found that FDI inflow has influenced the GDP of the nation and both were moving with matching pace and was having positive impact on economy. They also found that FDI has generated balance growth and development and engaged manpower across the nation.

### III. RESEARCH OBJECTIVE AND METHODOLOGY

#### **Objective of study**

The core objective of the study is to examine and evaluate the recent amendment and policy initiatives in FDI and its overall impact and contribution on nation's economic growth. In addition, for better future and overall growth and development of nation's economy will suggest rational and strategic approach to increase FDI inflow which can leverage nation's GDP and long term growth.

#### **Methodology**

The present study is exclusively based on secondary data and is carried out to examine and evaluate the impact of FDI on Nations economic growth. For the purpose of study secondary data and reports are been used, which are collected from published reports of nations premier economical and commercial institutions, magazines, RBI annual report, DIPP reports and notifications, research articles and financial institutions websites. After judicious evaluation of FDI and strategic relationship between FDI and economic growth suggestions and recommendations are made. The outcome of the study depends on the selected period by the researchers which may differ from other analysis.

#### **Recent Amendments and Policy Initiatives**

The Central Government radically liberalized the FDI regime, with the core objective of providing major impetus to employment and job creation in India. For the purpose it amended the rules and regulations according to time and requirement. These amendments are meant to liberalize and simplify policy to provide ease of doing business in the country, leading to larger FDI inflows that will contribute to growth of investment, incomes and employment. The GOI through its statutory arms Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce and Industry and apex bank "Reserve Bank of India" Introduced new consolidated FDI policy which superseded the consolidated FDI policy of 2015 and became effective immediately from the date of its publication (7 June 2016). Considering the importance of FDI the Prime Minister of India Narendra Modi chaired the meeting and introduced second biggest reforms in FDI. Following the directives of government the Reserve Bank of India (RBI) inserted Regulation 10A in the Foreign

Exchange Management. It also notified amendments to provisions governing issuance of share under Employees' Stock Option Schemes (ESOP) and sweet equity shares vide the FEMA 20 (Forth Amendment) Regulations, 2015 dated 11 June 2015. The RBI on the directive of GOI amended FEMA 20 to allow Foreign Investment Vehicles (AIFs, REITs, INVITs etc) from any person outside India (including FPIs and NRIs) can invest under the mentioned conditions without seeking any approval from the RBI or the Foreign Investment Promotion Board (FIPB). The new FDI policy has clarified that the terms "private security agencies", private security" and armoured car service" shall have the same meaning as provided to such terms under the Private Security Agencies (Regulation) Act, 2005 (PSAR Act.). The new amended FDI Policy permits Foreign Venture Capital Investors (FVCIs) to invest in infrastructure sector in 'start-ups' engaged in any sector. They are now permitted to invest in Indian companies engage in any of the 10 sector listed in schedule 6 of FEMA 20, including the newly added infrastructure sector. They can invest in start-ups irrespective of the sector in which the start-up is engaged, they can invest in units of VCF or of a Category 1 Alternative Investment Fund (Cat 1 AIF) or units of a scheme or a fund set by a VCF or by a Cat 1 AIF. The new amended policy FDI has removed the courier services from the list of sectors / activities under the certain prescribed conditions. According to Press Note No 7 (2015 Series), NRI investment made on non repatriation basis are now deemed to be domestic investments. Further GOI in new policy amended the definition of NRI to include Overseas Citizens of India and Persons of India Origin (PIO). New policy introduced Composite Caps, the DIPP introduced composite caps for bringing uniformity and simplicity across the sectors in Erstwhile FDI policy *vide* Press Note No 8 (2015 Series). According to policy initiatives sectoral limits on foreign investment or caps are required to be reckoned in a composite manner aggregating both FDI and FPI and the total foreign investment in an Indian company is to be taken as the sum total of direct and indirect foreign investment. Further the cap on foreign investment takes into account all types of foreign investment such as FDI, FPI, FII, NRI, FVCI, QFI etc. In addition, an individual FII / FPI / QFI can invest up to 10 percent of the share capital of a company and aggregate investment limit for FII / FPI / QFI investment capped up-to 24 percent of the share capital of the company. This liberty of composite caps is not extended to defense and banking sector, it is to avoid 'flyby-night- operators' and quick money coming in and going out in these sensitive sectors.

The government of India amended the policy on FDI (Press Note No 3, 2016 Series, issued on 29 March 2016) and allowed 100 percent FDI under the automatic route in "market place model of e-commerce". It is also been notified that FDI is not permitted in "inventory based model of e-commerce". GOI to encourage investors amended Limited Liability Partnerships (LLP) regulations and permitted foreign investment in (LLP) under automatic route for sector where 100 percent FDI is allowed without attendant FDI linked performance conditionally. According to new amended policy of FDI foreign investment up to 100 percent under automatic route is permitted in the plantation sector which includes tea, coffee, rubber, cardamom, palm oil tree and olive oil tree plantations, under the new policy the definition of real estate business has been modified and rent income on lease of a property, not amounting to transfer, will not be considered as real estate business. Under the new policy manufacturing has been given a precise definition wherein foreign investment up to 100 percent under the automatic route is permitted. Entities engaged in single brand retail trading through brick and mortar stores are permitted to undertake retail trading

through e-commerce and foreign investment in the insurance sector under the automatic route has been increased to 49 percent from 29 percent. The government allowed 100 percent FDI in aviation sector for scheduled carriers and under the automatic route, 49 percent FDI has been permitted. However, for the foreign airlines investing in scheduled airlines limits is 49 percent only. Under the new policy regime FDI limits have been hiked to 100 percent in broadcasting carriage services like teleports (uplinking hubs), in DTH, cable networks and mobile TV. The clause of controlled conditioned for 100 percent FDI under the automatic route for animal husbandry has been done away with under the new policy. In addition issuance of innovative FDI instruments like convertible notes by start-ups, streamlining of overseas investment operations for start-ups and simplifying the process for dealing with delayed reporting of FDI related transactions by building a penalty structure into the regulation itself.

#### **IV. HISTORICAL ANALYSIS OF FDI IN INDIA**

FDI is not a new phenomena, its existence is deep rooted and can be traced out from ancient time period. Historically early traders move from country to country, they purchase products from one place and sell it to other. They give money to the manufacturer of the product to produce more in quantity and with their desired quality. The recent and most recognized historical evidence of FDI in India can be revealed from the establishment of East India Company of Britain. During the Britain colonial era in India British investment started increasing. Later Japanese companies started entering in Indian market after Second World War and established sound business relation with India but comparatively their investment was lower than British Investment and UK was found to be the dominant in India. After the independence government of India was found reluctant toward foreign capital and consider it with fear and suspicion. It was due to British occupation and their exploitative role which they played. Later considering national interest as a paramount the policy makers designed the FDI policies distinctly and permitted FDI with strict rules and regulations. The early policies of a nation permitted FDI as a medium for acquiring advance technologies and to mobilize foreign exchange reserves. With times and according to economic and political environment GOI kept on introducing changes in the FDI norms and policies. The industrial policy of 1965 adopted liberal attitude and allowed frequent equity to MNCs and permitted them to venture through technical collaboration in India.

**Figure: 1- Foreign Direct Investment (FDI) Inflows to India: Country Wise**

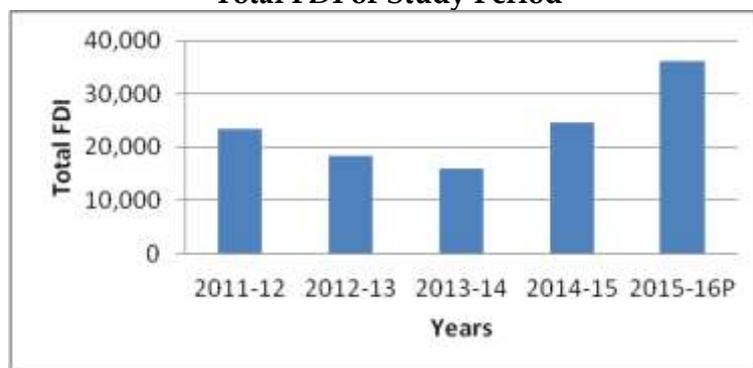
Foreign Direct Inflow Country wise					
Source / Industry	2011-12	2012-13	2013 -14	2014 -15	2015 -16P
Singapore	3,306	1,605	4,415	5,137	12,479
Mauritius	8,142	8,059	3,695	5,878	7,452
United States of America	994	478	617	1,981	4,124
Netherlands	1,289	1700	1,157	2,154	2330
Japan	2,089	1,340	1,795	2,019	1,818
UAE	346	173	239	327	961
Germany	368	467	650	942	927
United Kingdom	2,760	1,022	111	1,891	842
Luxemburg	89	34	539	204	784
Cyprus	1,568	415	546	737	488
China	73	148	121	505	461
France	589	547	229	347	392
Hong Kong	262	66	85	325	344
South Korea	226	224	189	138	241
Switzerland	211	268	356	292	195
Spain	251	348	181	401	141
Malaysia	18	238	113	219	73

Others	890	1,156	1,015	1,251	2,016
<b>Total FDI</b>	<b>23,473</b>	<b>18,286</b>	<b>16,054</b>	<b>24,748</b>	<b>36,068</b>

**Source:** Revealed by the researchers from Reserve Bank of India Annual report 2015-16

In order to stabilize the economy Government of India introduced the macroeconomic stabilization and structural adjustment program with the support of World Bank and IMF. Later GOI constituted "Foreign Investment Promotion Board" (FIPB) whose core function was to restore confidence of foreign investors and facilitate the foreign investment starting with baseline of less than USD 1 Billion in 1990. Prior to the liberalisation external aid and debt were the two major component of Capital Account of India's Balance of Payment (BOP). India's Reliance on external aids comparatively started reducing with economic reforms programme. Due to adopted economic reforms India started emphasising on creating long term non debt capital such as FDI and strategically started discouraging short term and volatile inflows into the nation's economy. To bring more transparency, balance and stability "Government of India" on the recommendation of Dr C. Rangarajan and Dr S. S Tarapore committee eased the restrictions on the capital outflows in a non disruptive manner. These bold economic reforms liberalized the Indian capital account to a great extent and signalled global investors for more positive reforms are in consideration. In due course of action Government of India in its Cabinet Note in October, 2014, proposed numerous amendments to the Consolidated FDI policy, 2014 (FDI Policy), aimed at increasing inflows and opportunities for growth and employment. With the release of DIPP's Press Note No. 10 on December 3, 2014, the final amendments to the FDI policy came into effect.

**Figure: II**  
**Total FDI of Study Period**



**Source:** Prepared by the researchers

In the year 1991, economic reforms were introduced and FDI was issued under Foreign Exchange Management Act (FEMA). It has been found that FDI increases swiftly from 2006-07 onwards as India allowed 100 percent FDI through automatic route. RBI issued notification No. FEMA20/2000-RB dated 3<sup>rd</sup> May 2000 on the directive of Finance Minister Mr Manmohan Singh. In the year 2013

June 18<sup>th</sup> due to continuous devaluation of Indian rupee central government relaxed the norms and permitted FDI in 12 areas of operation including telecommunication sector, defence, public sector oil refineries, stock exchange, power and electric sector. In telecommunication FDI raised from 74 percent to 100 percent. In insurance sector it was raised from 26 percent to 49 percent, in infrastructure FDI limit raised to 100 percent and in most protected area which is defence sector it has been raised to 49 percent. The sector which attracted higher inflows was service sector, telecommunication sector, infrastructure sector and IT sector. Since 2000 India has received total foreign investment of 306.88 billion US dollars. In the period of 1999 to 2004, India received foreign investment to the tune of 19.52 billion US dollars. In the period of 2004 -09, collective foreign investment in the country touched 114.55 billion US dollars, further it raised to 172.82 billion dollar between 2009 to September 2013. But during the period India also witness decline in FDI, according to Department of Industrial policy and Promotion (DIPP), Government of India (GOI) The declining amount are (2.94) billion US Dollars in 2009-10, (1.23) billion US dollars in 2010-11, (0.73) billion US dollars in 2011-12, (0.13) billion US dollars, (0.12) billion dollars in 2013-14. Leading nations who invested in Indian economy are Mauritius, Singapore, US and UK and biggest beneficiaries sectors are tourism, pharmaceuticals, services, chemicals and construction. In the year 2013 in -between January to November, India witness mergers and acquisitions deals worth of 26.76 billion.

In May 2011, government of India considering the importance of share purchase payment, allowed authorised dealers to open non-interest bearing escrow accounts in Indian rupee and it also analyzed the significance of foreign exchange and permitted authorised dealers to keep securities in possession to facilitate FDI transactions without prior approval from Reserve Bank. The core aim of this measure was to provide operational flexibility and easing the procedures for such transactions. In addition to this, authorised dealers (ADs) banks were allowed to pledge shares acquired under the FDI route for loans and advances for genuine purpose in India as well as overseas. In November 2011, Government of India (GOI) permitted Indian companies to transact without prior approval of the RBI if they meet the relevant pricing guidelines of SEBI and the transfer of shares under FDI schemes in financial sector. Global investment through issues of shares or transfer of “participating interest / right” in oil fields by Indian companies to a non resident will be treated as FDI.

**Figure: III- FDI Inflows to India: Industrial Sector Wise**

FDI Inflows Sector Wise					
Years	2011-12	2012-13	2013 -14	2014 -15	2015 -16P
Manufacturing	9,337	6,528	6,381	9,613	8,439
Computer Services	736	247	934	2,154	4, 319
Construction	2,634	1,319	1,276	1,640	4,141
Retail & Whole Sale Trade	567	551	1,139	2,551	3,998
Financial Services	2,603	2,760	1,026	3,075	3,547
Business Services	1,590	643	521	680	3,031
Communication Services	1,458	92	1,256	1,075	2,638
Electricity and other Energy Generation, Distribution & Transmission	1,395	1,653	1,284	1,284	1,364
Transportation	410	213	311	482	1,363
Miscellaneous Services	801	552	941	586	1,022
Restaurants and Hotels	870	3,129	361	686	889
Mining	204	69	24	129	596
Education, Research & Development	103	150	107	131	394
Real Estate Activities	340	197	201	202	112
Trading	6	140	0	228	0
<b>Others</b>	419	43	292	232	215
P: Provisional. P: Provisional					

FDI through SIA / FIPB and RBI routes only

**Source:** *Revealed by the researchers from Reserve Bank of India Annual report 2015-16*

In the year 2011-12, government of India realises to improve FDI inflow in insurance, retail, aviation and in urban infrastructure sector. In this context GOI further liberalised the FDI norms in retail sector and proposed 51 percent of FDI in multi brand retail but due to lack of consensus among various stakeholders mainly for predatory pricing or under cost pricing by the large retail chains in order to expand their business base. It was considered that such pricing behaviour will eliminate the existing small retailers and large scale retailer will monopolise the market in absence of small retailer. These apprehensions in FDI are contrast to international experience, due to this it did not worked and has been kept in abeyance. FDI is retail generally lead to increase competition and result in lowering the prices of commodities which improves consumer welfare. It relatively helps in improving supply chain management through greater investment in supporting infrastructure, including cold storage for farm and poultry products. In China, Retailing and wholesaling has emerged as major sector of FDI. It has also benefitted many East Asian countries. In January 2012 government raised the FDI limit in single brand retailing under government approval route from 51 percent to 100 percent and in addition capitalization of import payables and pre incorporation expenses under the FDI schemes with prior approval from the FPIB. It is also been found that due to many other emerging market outward FDI has increased significantly. In the year 2011-12, the stock of outward FDI from India touched 112 billion US dollars. These FDI outflow generate benefits by enhancing competitiveness and market access. Considering the impact of FDI outflow there is needed to balance the domestic investment interests in the overall FDI policy. Moreover, exponential rise in issuance of guarantees by the Indian corporate in order to fund their joint ventures or to their wholly owned subsidiaries abroad could become matter of concern for banks in long term.

Government of India in order to bring efficiency and transparency toward rationalisation of returns and liberalisation of procedures discontinued the physical filing of three FDI related returns, Advance Remittance Form (ARF), from Foreign Currency Gross Provisional Return (FC-GPR) and from foreign currency transfer of share (FC-TRS) and introduced online filling of forms on Governments- E- Biz portal. According to the new facilitating guidelines and relaxed norms, reporting by Authorised Dealers (AD) banks to RBI under Diamond Dollar Account Scheme has been dispensed with. Filing of returns revealing details of trade related loans and advances by exporters to their overseas importers from the EEFC account has also been dispensed with. In addition to this Government of India (GOI) took initiative and submission of documents by Full-Fledged Money Changers (FFMC) / AD Category - II became more transparent and relaxed. Government also relaxed norms and procedures in opening of additional branches while single / bulks filing of the SOFTEX form of certification also were facilitated to all software exporters. During the financial year FDI limit for insurance was increased from previous limit of 26 percent to 49 percent under the automatic route. Government also permitted FDI up to 100 percent in CICs through automatic route to those entities that had a track record of running a credit information

bureau in well regulated environment. Government prohibited FDI only in tobacco and of its substitutes; cigars manufacturing, cigarillos, cheroots and cigarettes but other activities in relation to these products like wholesale cash and carry and retail trading were allowed.

With liberalised and pro investor policy and its implementation, India in the year 2015-16 became a most preferred destination for foreign direct investment (FDI) and received the highest annual net inflow during the year. Considering the optimism and importance of capital inflows due to ongoing liberalisation of FDI policy, the repayment of FCNR (B) deposits under the special swap scheme was managed carefully. In this context, the level of reserves and covering through forward assets provided ample resources. During the period these challenging growth and developments, astute management including a progressively liberal, futuristic and transparent FDI policy ensured a steady improvement in external sector sustainability and also built reserves of 17.9 billion US dollars on a BoP in the financial year.

Government of India in order to attract more FDI living no stone unturned and putting all kind of measures to generate inflow. It raises the ceiling of investment in important sector like broadcasting and defence. It rationalised and simplified required procedure and launched Make in India initiative. The impact of these initiatives was found positive and net inflows of FDI surged to 36 billion US dollars in the year 2015-16 which was 15 percent higher than the previous year's annual inflow. Comparatively gross FDI flows to India also registered high growth and touched 55.6 billion US dollars during the year. During the financial year Mergers and Acquisitions also played instrumental role in defying FDI inflows. It is been found that during the financial year 2015-16 green field investment largely dominated FDI flows in India, it has grown three time more than 2014 and replaced China as the top destination for green field FDI. Inflows in the form of deposits by the non resident Indians found strong and touched 16 billion US dollars during the financial

During the year due to other emerging financial and competitive market net portfolio flows in India turned negative with estimated net outflow of 3.5 billion US dollars from the equity market and 0.5 billion US dollars from debt market. These outflows took place due to slow down in major emerging market and growing geo-political tensions. The diverging monetary policy stances in advance economies and rising interest rate in the US also impacted the financial market and became matter of concern. The sell off across EMEs and other debt creating flows such as ECBs and trade credits were also found negative under the weight of repayment which exceeds fresh disbursements.

#### **Impact of policy Initiatives in FDI**

By analyzing the data of Reserve Bank of India we found that FDI inflow in India is on increasing trend year to year with few decline. In the year 2011-12 the total FDI in India was (23,473) crore but it decline in the corresponding year 2012-13, and was (18,286) crore, further in the year 2013-14 due to political changes in India and global fall in economy, FDI inflow further declined and was (16,054) crore, but in the year 2014-15, GOI took corrective measures and in 2015-16 introduced amendments in existing policies to attract FDI. Due to GOI efforts and policies initiatives FDI inflows increases astonishingly and was (24,748) crore, in the year 2015-16 it maintained the

increasing trend and was (36,068) crore.

Increase in FDI inflows impacted the economic growth, output and productivity to a large extent. Performance of all the sector in which FDI inflow increases are found high and growing according to the matching pace of inflow. Improved performance of respective sector impacted growth in nation's export. Growing performance of respective sectors impacted employment opportunities, and ultimately transformed unemployment into employment which impacted increase in output, productivity and domestic purchasing power. Employment generated income and resulted in saving, this saving impacted banking sector and financial market. Banks with more available funds extend their resources to growing financial demand in diversified sectors, which impacted growth in economic activities and resulted into nation's economic growth.

#### V. FINDINGS

The study found that to attract foreign investors government of India has introduced amendments in existing FDI rules and regulations and permitted FDI in 12 areas of operations in 2013. Under this new policy of FDI 2015-16, limits in retail trading, teleports (uplinking hubs), telecommunication, pharmaceuticals, insurance sector, infrastructure, defence, aviation sector, CICs, animal husbandry, plantation, has been increased.

The study found that service sector, telecommunication sector, infrastructure sector and IT sector have attracted higher FDI inflow and tourism; pharmaceuticals, services, chemicals and construction sectors are the biggest beneficiaries of amendments and liberalised policy initiatives.

The study found that in 2011, GOI permitted dealers to open non-interest bearing escrow accounts in Indian rupees and permitted authorised dealers to keep securities in possession to facilitate FDI transactions without prior approval from RBI. Study found that GOI discontinued the physical filing of three FDI related returns ARF, FC-GPR and FC-TRS and introduced online filling of forms on Government E- Biz portal

The study found that in the year 2011-12, outward FDI from India touched 112 billion US dollars and Net FDI in the year 2015-16 surged to 36 billion US dollars and Gross FDI touched 55.6 billion US dollars. The study found that Mauritius, Singapore, Unites States and UK are the leading investors in Indian economy.

The study found that government of India amended FDI rules and regulations in Private Security Agencies, Investment by Foreign Venture Capital Investors (FVCIs), Courier Services, Employees Stock Option Schemes (ESOP), Investment by Non-Resident Indians (NRIs), Introduction of Composite Caps, Foreign Investment into Investment Vehicles (AIFs, REITs, INVITs Etc), Liberalisation in Insurance and Pension Sector, Investment by of Swap of Shares, Limited Liability Partnerships (LLPs), Manufacturing, Defence, Single Brand Trading (SBRT), in e - commerce, Pharmaceutical,

The study found that impact of FDI on Nations economic activities and growth is positive. All the respective sectors in which amendments are been made are performing with growth. Employment, productivity and purchasing power has grown with economic growth.

The study found that in the year 2015-16, India dominated in green field investment and replaced China as the top destination for green field FDI.

#### VI. CONCLUSION & RECOMMENDATION

Foreign capital inflow in general supplements and compliments domestic capital and stoke the pace of economic growth along with certain benefits like transfer of technology, competitive management practice, employment opportunities and economy of scale in host nation. These benefits from large capital inflows also have certain costs such as appreciation in asset prices, appreciation in exchange rates, balance of payment imbalance, tax holidays, low corporate tax and income tax rates, concessions in other kinds of taxes, special economic zones, preferential tariffs, export processing zone, Bonded warehouses, free lands or land subsidies, infrastructure subsidies, relocation and expatriation subsidies, job training and employment subsidies, investment financial subsidies, soft loan or loan guarantees, research and development, derogation from regulations usually for very large projects, declining domestic export competitiveness etc.

The outcome of the conducted study revealed that government of India's amendments and policy initiatives have generated positive and encouraging results which accelerated the nation's economic pace. FDI inflow at micro and macro level has accelerated the industrial production and it has influenced the general price level in the economy. FDI inflow has helped to raise the output, productivity, domestic consumption, export and employment in respective sectors. In comparison to yester year the judicious policy decisions of present government to liberate FDI inflow at the sectoral level has been appreciated by the global investors. The GOI in order to answer the domestic demand and to cater the unemployment used amendments as a leverage tool and introduced policy initiative to attract more FDI inflows into the country. GOI succeeded in accelerating the pace of industrial production and managed supply side gaps to contain inflationary pressures in the economy and also to accumulate foreign exchange reserves to maintain and enhance the international creditworthiness of the country.

### **Recommendation**

Therefore, for better economic growth and balance development it is paramount important for nation policy makers to plan for further opening up of the economy. It is advisable to open up the export oriented sectors to attract more FDI inflows.

Political stability, corruption less and freedom to invest in desired sector hold the key of attracting FDI. Thus GOI has to develop investment friendly environment along with investment protection and ready to use infrastructure and have to keep on amending the law till it is having positive impact on economy of the nation.

Government of India (GOI) has to adopt innovative and globally competitive policies along with good governance according to global standards in order to make India as a most preferred and attractive destination for foreign capital.

The impact and level of influence of FDI on nation's economy should be carried out with other microeconomic variables than GDP.

The outcome of study differs from period to period depending upon global economic environment. Thus government has to keep on bringing the changes in policy and have to keep on amending the rules in comparison to international perspectives.

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Declaration

Dear \Sir \ Madam

With deep regard and faith in your jurisdiction I "*Dr S.M.Tariq Zafar*" submitting research paper, title "**An Analytical Study on Foreign Direct Investment (FDI) and Its Relative Impact on Indian Economy**" in your esteemed research journal. This paper is a joint study of *Dr S.M.Tariq Zafar, Dr Waleed Hmdat and Syed Ashfaq Ahmed*. We hereby solemnly declare that research work is original in all regard and has not been submitted to any journal for publication.

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