

Impact of Foreign Direct Investment on Various Sectors of the Economy

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Abstract: *With the initiation of globalization, developing countries, particularly those in Asia, are witnessing an immense surge of FDI inflows during the past two decades. Although India has been a latecomer to the FDI scene as compared to the other East Asian countries, its considerable market potential and a liberalized policy regime has sustained its attraction as a favorable destination for foreign investors. This study aims to look at the impact of FDI on the Indian economy, particularly after 20 years of economic reforms, and analyzes the challenges to position itself favorably in the global competition of FDI.*

Keywords: *Economics, eco, Indianeconomy, FDI, India, investemen, globalization, economicsreforms*

INTRODUCTION

Foreign Direct Investment (FDI) is the investment made by an individual or a firm in the business interests of a company located in another country. An investment into a foreign firm is considered as FDI if it has a lasting effect. A lasting effect refers to a minimum of 10 percent voting rights in the company. Control is the key element of FDI. The entity making the FDI should be having a control in the operations of the company. This is also the main difference between FDI and Foreign Institutional Investment wherein the investor has no voting rights. There are two types of FDI in India- Brownfield and Greenfield. Greenfield investments mean starting the business from scratch. The parent company has to start its operations in the host country from the ground. However, Brownfield investments refer to the cases when a parent company takes over an existing set up to start its operations in the host country.

The investor can use various methods like mergers and acquisitions, setting up a subsidiary in the host country, joint ventures or acquiring the voting stock of the host company to invest in a foreign company. The investor benefits from FDI in several ways such as market diversification, lower production costs and subsidies. The host country gets an access to

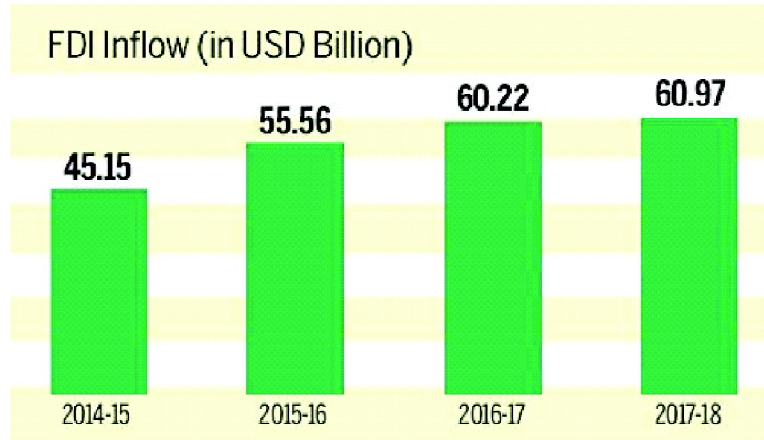
new and modern technology, skills and management. It also gets an incredible amount of employment opportunities for its people. There are several economic benefits attached for the host country. However, there are a few disadvantages as well. FDI results in repatriation of profits and displacement of local businesses. FDI can enter India through either of the two available routes- the automatic route and the government route. Under the automatic route, the investor does not need to take permission from the RBI or the Government of India and can directly make the investment in India. Few sectors covered under the 100 percent automatic route are E-commerce activity and food processing. Under the government route, government approval is mandatory. The potential investor needs to submit an application with the Foreign Investment Facilitation Portal. The sectors covered under 'up to 100 percent government route' are Banking and public sector up to 20 percent and satellite up to 100 percent.

Impact of FDI on the host country can be massive depending on the inflows of foreign investment each year. India is highly dependent on FDI as a monetary source for development. FDI has gradually increased in India since the Liberalisation phase in 1991. Today, India is on the top 100 club of Ease of Doing Business. Globally, India also ranks number one in the Greenfield FDI investment. During the fiscal ended March 2019, India received the highest-ever FDI inflow of USD 64.37 billion. There are very few industries where FDI is prohibited.

BACKGROUND OF STUDY

The foreign direct investment in India dates back to the colonial period. The Malay Archipelago Company started its business in India as a far off direct investment. The correlation between economic process and FDI are often seen since then. consistent with (Mafruza Sultana, Vidushi Kagdiyal, Vishal M Goyal, Sai Pratyush Chakkala, Rajeshri Parmar, 2019), tries to gauge empirically, the connection between foreign direct investment (FDI) and economic process in India by using yearly data for a decade from 2006-07 to 2016-17. The study identified that the main factor influencing the inflow of FDI to India, which is poised of varied variables collected under FDI and Indian economy.

According to (Muthusamy, S. Sundararajan, 2019), the results of the Karl Pearson's correlation have shown the results that the connection between the FDI and therefore the Industrial Growth has shown a positive trend among the consecutive years. The competitive investment climate in India has created the inflow of FDI into India, and therefore



the competitive climate is that the basis for FDI to enter into the economy and for the expansion of commercial potential. For improving the economic infrastructure and to rise the interior absorptive capacity there shall vary key policy measures. For the FDI to be the higher inflow and to nurture with the economic process, enriching the local entrepreneurship, stable macroeconomic conditions and to reinforce the procedure of development.

According to (Bhavya Malhotra, 2014), India's Foreign Direct Investment (FDI) policy has been gradually liberalized to form the market more investor friendly. The results are encouraging. Lately, the country is consistently ranked among the highest three global investment destinations by all international bodies, including the planet Bank, consistent with a United Nations (UN) report. For Indian economy which has tremendous potential, FDI has had a positive impact. FDI inflow supplements domestic capital, also as technology and skills of existing companies. It also helps to determine new companies. All of those contribute to economic process of the Indian Economy.

OBJECTIVES OF THE STUDY

This study aims to analyze the impact of Foreign Direct Investment on various sectors of the Indian economy. The four sectors which receive the highest FDI inflows namely services, computer software and hardware, telecommunications and trading have been studied in detail. The study aims to assess the determinants of FDI inflows. The study lastly has an objective to know the flow of investment in India.

FINDINGS

Table 1
Share of top investing countries FDI Inflows in USD billion (approx)

<i>Country</i>	<i>2017-18 April-March</i>	<i>2018-19 April-March</i>	<i>2019-20 April-March</i>	<i>Cumulative Inflows April 2000-March 2020</i>
Mauritius	15	8	7	141
Singapore	12	16	11	94
Japan	1	2	2	33
Netherlands	2	3	3	30
U.S.A.	2	3	2	28
U.K.	0.8	1	1	27
Germany	1	0.8	0.3	12
Cyprus	0.4	0.2	0.2	10
France	0.5	0.4	0.4	7
UAE	1	0.8	0.2	6
Total FDI Inflows from all countries	44	44	36	456

Table 2
Sectors attracting highest FDI Inflows in USD billion (approx)

<i>Sectors</i>	<i>2017-18 April- March</i>	<i>2018-19 April- March</i>	<i>2019-20 April- March</i>	<i>Cumulative Inflows April 2000- March 2020</i>
Services	6	9	6	80
Computer Software and Hardware	6	6	6	43
Telecommunications	6	2	4	37
Trading	4	4	3	26
Construction Development	0.5	0.2	0.3	25
Automobile Industry	2	2	2	23
Chemicals (other than fertilizers)	1	1	0.8	17
Drugs and Pharmaceuticals	1	0.2	0.4	16
Construction(Infrastructure) Activities	2	2	1	16
Power	1	1	0.3	14

IMPACT OF FDI ON THE MAJOR SECTORS

Service sector

According to the Department for Promotion of Industry and Internal Trade, the FDI in service sector grew by 36.5% to USD 9.15 billion in 2018-19. The

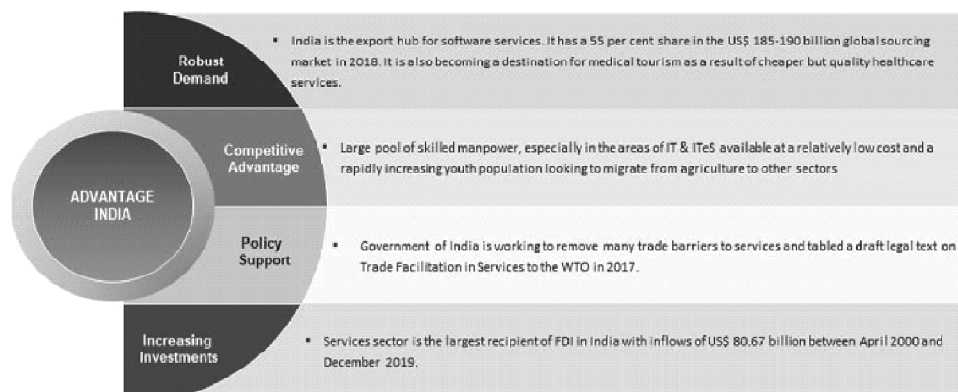
service sector attracted FDI of USD 6.7 billion in 2017-18. A substantial growth can be seen over the year. Services sector includes Financial, Banking, Insurance, Non-Financial / Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis. Approximately 18 percent of the total FDI received between April 2000 and March 2019 is attributed to the service sector. The service sector is not only dominant in India’s GDP but also has the highest inflow of FDI. The sector provides a huge number of employment opportunities and also has significant exports. The service sector has been the largest recipient of the FDI inflow from April 2000 to December 2019.

The Government of India perceives the significance of advancing development in administrations segments and gives a few motivating forces in wide assortment of segments, for example, medicinal services, the travel industry, instruction, building, correspondences, transportation, data innovation, banking, fund, the executives, among others. The Government of India has embraced a couple of activities in the ongoing past. A portion of these are as per the following:

Administration of India has propelled the National Broadband Mission with intent to give Broadband access to all towns by 2022.

Under the Mid-Term Review of Foreign Trade Policy (2015-20), the Central Government expanded motivating forces offered under Types of assistance Exports from India Scheme (SEIS) by two percent.

Administration of India is attempting to evacuate many exchange hindrances to administrations and postponed a draft legitimate content on Trade Facilitation in Services to the WTO in 2017.



Note: WTO-World Trade Organisation

Figure 1

Computer Software and Hardware

Computer software and hardware is the second most important sector in India in relation to FDI. This sector receives the second highest amount of FDI inflows after the services sector. Approximately USD 6 billion was received in April 2018 to March 2019. This number significantly increased in April 2019 to March 2020 to USD 7 billion. This sector backs a 9 percent share in the FDI inflows. There has been a total inflow of USD 38.5 billion in computer software and hardware from April 2000 to June 2019.

India has over 17000 IT firms out of which 1000 are large firms and deliver to more than 50 locations. The country's cost competitive IT sector is roughly 3-4 times cheaper than the IT sector of the US. This is the unique selling proposition of the Indian IT sector and hence receives the current FDI inflow. This sector employs roughly 4.1 million people and hence is the largest employer in the private sector. This industry also amounts to 8 percent share in the country's GDP.

Up to 100 percent FDI is allowed in data processing, software development and computer consultancy services, software supply services, business and management consultancy services, market research services, technical testing and analysis services under automatic route.

100 percent FDI is permitted in the IT sector in B2B Ecommerce.

SECTOR-WISE PROJECTION

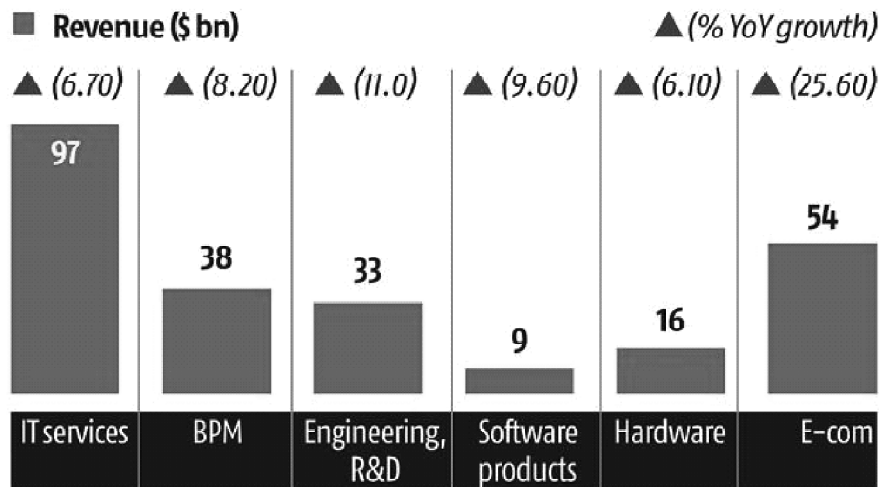


Figure 2

Telecommunications

India is the second largest telecommunications market in the world with over 1.2 billion customers. India has registered a major growth in the past fifteen years. The Indian mobile economy is growing rapidly and will contribute substantially to India's Gross Domestic Product (GDP), according to report prepared by GSM Association (GSMA) in collaboration with the Boston Consulting Group (BCG). The deregulation of Foreign Direct Investment (FDI) norms has made the sector one of the fastest growing and a top five employment opportunity generator in the country. The FDI inflows in the telecommunications sector were more than USD 4 billion in the year April 2019 to March 2020. The inflows were close to USD 2.6 billion in 2018-19.

FDI inflows into the telecom sector during April 2000 – December 2019 totalled to US\$ 37.11 billion, according to the data released by Department for Promotion of Industry and Internal Trade (DPIIT). As of January 2020, more than 542 banks have been permitted to provide mobile banking services in India.

The Government of India allowed 100 percent FDI in Bharti Airtel in January 2020. FDI cap in the telecom sector has been increased to 100 per cent from 74 per cent; out of 100 per cent, 49 per cent will be done through automatic route and the rest will be done through the FIPB approval route.

100% FDI in telecommunications sector is allowed in the Telecom, wherein up to 49% is allowed through the automatic route and beyond 49% FDI in telecom sector under government route.

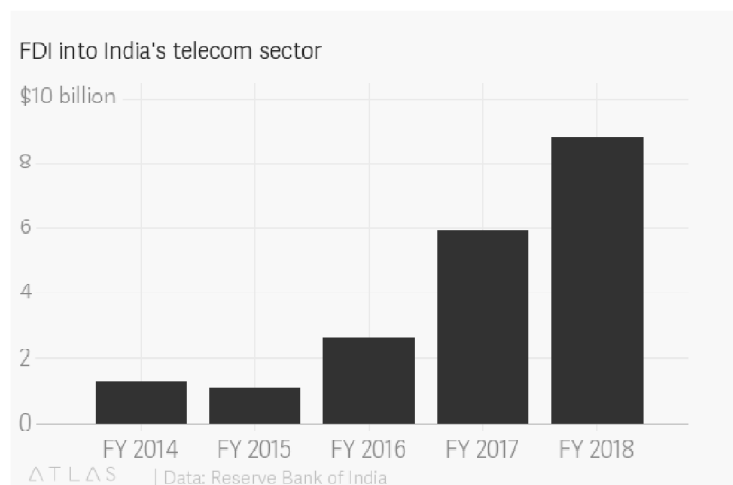


Figure 3

Trading

The trading sector has attracted more than USD 4.5 billion from April 2019 to March 2020. The value was close in 2018-19 as the sector attracted USD 4.4 billion as FDI. The sector has been a recipient of total USD 27.5 billion from April 2000 to March 2020. The FDI inflows in this sector amount to roughly 6 percent of the overall FDI inflows.

The Indian retail industry has emerged as one of the most dynamic and fast-paced industries due to the entry of several new players. Total consumption expenditure is expected to reach nearly USD 3600 billion by 2020 from USD 1824 billion in 2017. It accounts for over 10 percent of the country's Gross Domestic Product (GDP) and around eight per cent of the employment. India is the world's fifth-largest global destination in the retail space. With estimations of having market penetration of 12 percent by 2026 instead, the e-commerce market is set to grow at a CAGR of 30 percent for gross merchandise value to reach USD 200 billion by the same year.

India is the world's fifth largest global destination in the retail space. In the FDI Confidence Index, India ranks 16th after U.S., Canada, Germany, United Kingdom, China, Japan, France, Australia, Switzerland and Italy.

Recent policy changes allow 100% FDI in e-commerce under the automatic route for single-brand retail trading.

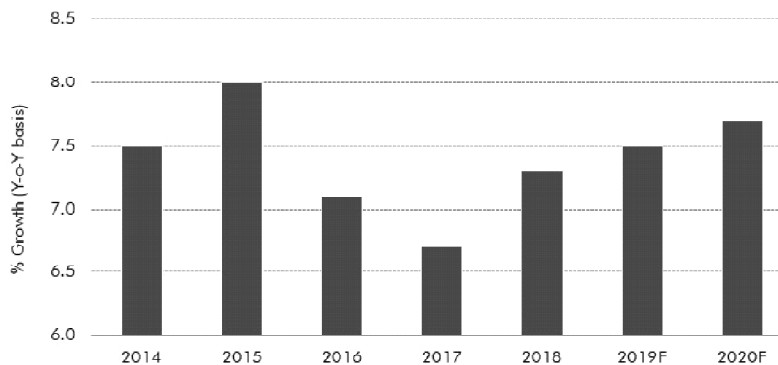


Figure 4

CONCLUSION

The FDI inflows into the Indian economy have been increasing year after year. There has been a major upward shift in the FDI investments in the previous decade. The government has eased FDI entry barriers and made it easier for the investors to enter the Indian economy. Hence, the

investments have increased. Indian economy has a few sectors which are majorly dependent on foreign investments with approximately 25 percent investment is in the form of FDI.

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