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## TREND IN FOREIGN DIRECT INVESTMENT IN POST-LIBERALIZATION ERA: A REVIEW



**Dr. Naushad M. Mujawar**

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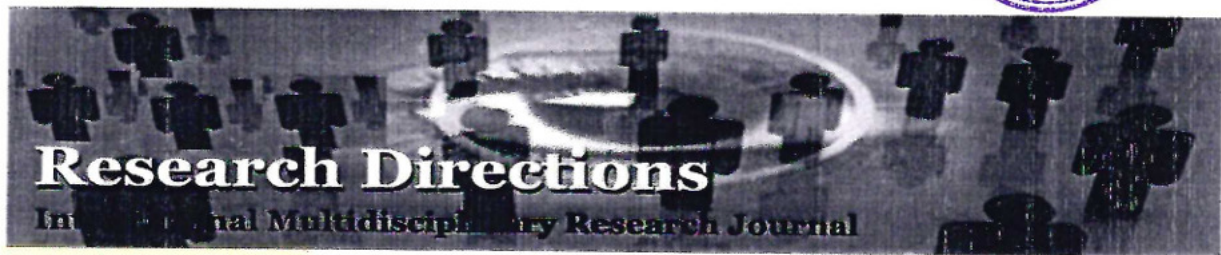
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**ABSTRACT:-** Foreign Direct Investment (FDI) is regarded as the life blood of developing nations, where capital has been one of the scarce resources and there are typical issues such as health, poverty, employment, education, research and development, technology obsolescence, global competition ...

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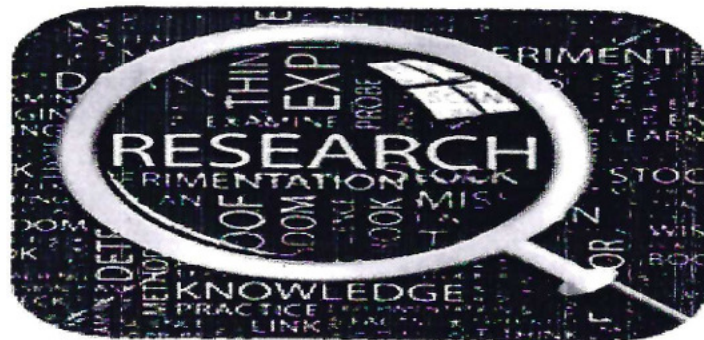
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### TREND IN FOREIGN DIRECT INVESTMENT IN POST-LIBERALIZATION ERA: A REVIEW

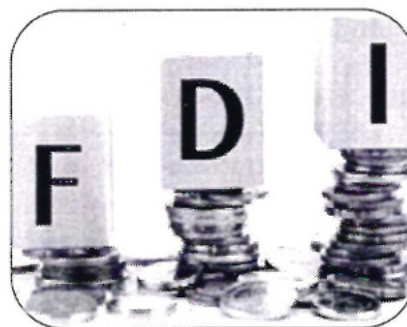
Dr. Naushad M. Mujawar

Associate Professor & Head, Dept. of Business Management ,  
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#### ABSTRACT

*Foreign Direct Investment (FDI) is regarded as the life blood of developing nations, where capital has been one of the scare resources and there are typical issues such as health, poverty, employment, education, research and development, technology obsolesce, global competition among others.*

**KEYWORDS :** *Foreign Direct Investment (FDI) , research and development, technology obsolesce.*



#### INTRODUCTION

It is the cross-border investment or say, capital inflows from abroad which helps to broaden the market accessibility for both host and home countries. FDI is a major source of non-debt financial resource and hence considered to be the critical driver of economic growth of India. The host country, i.e. the country which accepts the FDI from different countries usually uses it for its economic development. India is one of the important countries of the world to attract FDI.

There has been the flow of FDI to India since the colonial period. However, it got momentum since 1991, when the New Economic Policy, characterized by Liberalization, Privatization and Globalization (LPG) was introduced by the then Prime Minister Mr. P.V. Narsimharao. The political disturbances and economic problems created the severe financial crisis in the economy especially after mid-1990. FDI accelerated due to emergence of free-market economy which led to the high inflation, high fiscal deficit and downgraded the international credibility of India. The sudden break out of Gulf war in January 1991 further worsened the balance of payments crisis. The foreign exchange was so insufficient that even the payment for one week imports was difficult. The importance of role of FDI in the process of industrial development was highlighted when the New Economic Policy (LPG) was introduced with the support of IMF and the World Bank, aiming to raise its growth potential and integrating with the world economy. FDI inflows were considered essential for not only for enhancing competitiveness and efficiency of Indian industries but also for their modernization and technological up-gradation, and also for creating the sound base for export promotion.

Excellent growth in FDI was experienced in some years after introduction of a series of reforms. This has really helped to bridge up the gap between 'saving' and 'investment', to a considerable extent. But the growth trend could not be continued. Prime Minister Mr. Narendra Modi has visited around 50 countries of the world since he came in power with the purpose of attracting foreign investment. This has resulted in

excellent growth in FDI. However, again the declining trend in FDI is found. According to a release by Ministry of Commerce and Industry, India has now become the 'topmost attractive destination for foreign investment' It further says that increased FDI inflows in India are largely attributed to intense and bold policy reforms the government undertook to bring pragmatism in the FDI regime.

This paper attempts to take a review of growth in FDI through, route of equity participation, during the post-liberalization period and throws light on the government initiatives taken to attract FDI towards India.

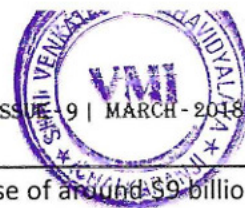
### 1.2: Reforms brought about by New Industrial Policy (NIP)

With an intention to give a momentum to FDI, the following major changes were brought about by New Industrial Policy.

- (a) Industrial licensing system was abolished except for 18 industries specified in the Annex-II of the statement, which includes those industries which manufactured hazardous chemicals and items of elitists' consumption or of national concerns social well-being and the environment concerns
- (b) Introduction of dual route of approval of FDI—RBI's automatic route in 35 priority sectors by RBI upto equity participation 51 percent and Government's approval (SIA/FIPB) route
- (c) Automatic permission for technology agreement in high priority industries and removal of restriction of FDI in low technology areas
- (d) Liberalization of technology imports
- (e) Establishment of a separate board named 'Foreign Investment Promotion Board (FIPB)' which was authorized to provide a Single Window Clearance for all project proposals regarded by it
- (f) Existing companies were allowed to hike their foreign equity upto 51 percent in priority sector
- (g) Dilution of dividend balancing conditions and its related exports obligation except in case of 22 consumer goods industries
- (h) Permission to Non-resident Indians (NRIs) and Overseas Corporate Bodies (OCBs) to invest up to 100% in high priorities sectors
- (i) Removal of condition for FDI with necessary technology agreements and automatic permission for technology agreement in high priority industries
- (j) Hike in the foreign equity participation limits to 51% for existing companies and liberalization of the use of foreign 'brands name'
- (k) Replacement of FERA, 1973 with FEMA, 1999 which was less stringent. Removal of the ceiling of 40% foreign equity
- (l) Removal of registration under MRTP Act
- (m) In 1997, Indian Government allowed 100% FDI in cash and carry wholesale and FDI in single brand retailing was allowed 51% in June, 2006.
- (n) After a long debate, further amendment was made in December, 2012 which led FDI to 100% in single brand retailing and 51% in multiple brand retailing.
- (o) Government of India set up Foreign Investment Implementation Authority (FIIA) in August, 1999, to facilitate quick translation of FDI approvals into implementation by providing a pro-active one step after care service to foreign investor like helping them obtain necessary approvals and sorting their operational problems. FIIA is assisted by Fast Track Committee which has been established in 30 Ministries/Departments of Government of India for monitoring and resolution of difficulties for sector specific projects

### 1.3: Growth in FDI during Modi Rule

Prime Minister Mr. Narendra Modi came to power in May 2014 and since then he has taken a number of measures to attract foreign investment to India. There was a huge growth in FDI in 2016-17 despite the Modi government had demonetized old currency notes of Rs 500 and Rs 1000 in November, 2016. Reform measures undertaken by Modi government since 2014 include liberalization of conservative sectors like rail infrastructure and defense, medical devices, and construction development. In September



2014, the government had launched 'Make in India' initiative which led to an increase of around \$9 billion in the first year itself.

### 1.3.1: Growth in FDI during 2014-15 to 2016-17

(i) Total FDI equity inflow received in the last three financial years (2014-15 to 2016-17) is \$ 114.41 billion. This is 40% more than the previous three financial years (2011-12 to 2013-14) when the total FDI was \$ 81.84 billion

(ii) FDI equity inflow received through approval route was \$ 11.69 billion, which is 64% higher than the previous three years (\$ 7.15 billion).

(iii) Total FDI inflow during last three years increased by 38%.

### 1.3.2: Growth in FDI after the launch of 'Make In India' initiative

(i) Total FDI equity inflow received in the last 30 months since the launch of Make in India initiative is \$ 99.72 billion, which is an increase of 62% compared to previous 30 months (April 2012 to September 2014) (\$ 61.41 billion)

(ii) Total FDI inflow increased by 51%, i.e. \$137.44 billion in comparison to \$90.98 billion of the previous 30 months before the launch of Make in India initiative.

### 1.3.3: FDI trends in 2016-17

(i) Total FDI equity inflow received during 2016-17 is \$ 43.48 billion, which is an increase of 9% compared to 2015-16 (\$ 40.00 billion). This is the highest ever for a particular financial year

(ii) FDI equity inflow received through approval route during 2016-17 was US\$ 5.90 billion, which is 65% higher than the previous year (\$ 3.57 billion)

(iii) Total FDI inflow grew by 8% to \$60.08 billion in 2016-17 in comparison to \$55.56 billion of the previous year. This is the highest ever FDI inflow for a particular financial year. Before this, the highest FDI inflow was reported in 2015-16

### 1.4: FDI equity inflows in post-liberalization period

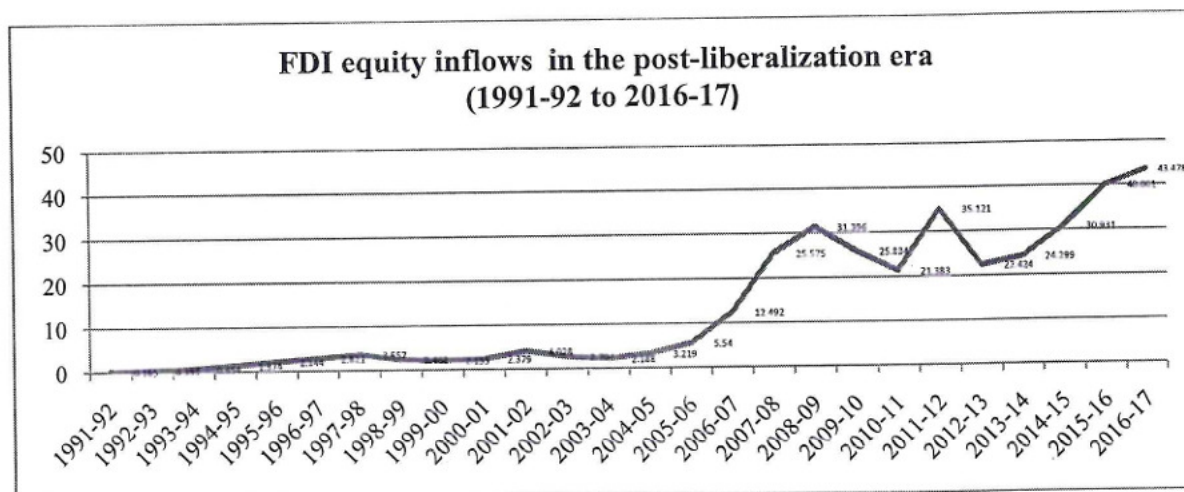
The following table shows the FDI (equity) inflows during the post liberalization period i.e. from 1991-92 to 2016-17.

**Table-I**  
**FDI equity Inflows in Post-Liberalization Period (1991-92 to 2016-17)**  
**(Figures in USD-Billion)**

Year	FDI Inflow	Increase/Decrease	Increase/Decrease Percentage	Year	FDI Inflow	Increase/Decrease	Increase/Decrease Percentage
1991-92	0.165	---	---	2004-05	3.219	1.03	47.12
1992-93	0.393	0.23	138.18	2005-06	5.54	2.32	72.10
1993-94	0.654	0.26	66.41	2006-07	12.492	6.95	125.49
1994-95	1.374	0.72	110.09	2007-08	25.575	13.08	104.73
1995-96	2.144	0.77	56.04	2008-09	31.396	5.82	22.76
1996-97	2.821	0.68	31.58	2009-10	25.834	-5.56	-17.72
1997-98	3.557	0.74	26.09	2010-11	21.383	-4.45	-17.23
1998-99	2.462	-1.10	-30.78	2011-12	35.121	13.74	64.25
1999-00	2.155	-0.31	-12.47	2012-13	22.424	-12.70	-36.15
2000-01	2.379	0.22	10.39	2013-14	24.299	1.88	8.36
2001-02	4.028	1.65	69.31	2014-15	30.931	6.63	27.29
2002-03	2.704	-1.32	-32.87	2015-16	40.001	9.07	29.32

2003-04	2.188	-0.52	-19.08	2016-17	43.478	3.48	8.69
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Source: Handbook of Industrial Policy & Statistics, 2016-17, DIPP, Govt. of India, New Delhi



The highest percentage growth in FDI was found in 1992-93 (138.18%), followed by 2006-07 (125.49%), 1994-95 (110.09%) and 2007-08 (104.73%). The swift fall in FDI was found in 2012-13 (-36.15%) followed by 2002-03 (-32.87%), 1998-99 (-30.78%), 2003-04 (-19.08%), 2009-10 (-17.72%), 2010-11 (-17.23%) and 1999-2000 (-12.47%).

During Modi Rule there has been an increasing trend in FDI during the first two years i.e. 27.29% in 2014-15 and 29.32% in 2015-16. However, in the last financial year the growth rate in FDI reduced considerably to 8.69%.

### 1.5: Significant FDI announcements

Some of the recent significant FDI announcements are as follows:

- 15 Japanese companies including Moresco, Toyoda Gosei, Topre and Murakami signed MoUs in September, 2017 with an intention to invest in Gujarat state
- Singapore's Temasek will acquire a 16% stake of US\$ 156.16 million in Bengaluru based private healthcare network Manipal Hospitals which runs a hospital chain of around 5,000 beds
- France-based energy firm, Engie SA and Dubai-based private equity firm Abraaj Group have entered into a partnership for setting up a wind-power platform in India
- US-based footwear company, Skechers, is planning to add 400 to 500 more exclusive outlets in India over the next five years and also to launch its apparel and accessories collection in India
- Government of India has approved five Foreign Direct Investment (FDI) proposals from Oppo Mobiles India, Louis Vuitton Malletier, Chumbak Design, Daniel Wellington AB and Actoserra Active Wholesale Pvt Ltd, according to Department of Industrial Policy and Promotion (DIPP)
- Cumulative FDI equity inflows in India increased 40% to reach US\$ 114.4 billion between FY 2015-16 and FY 2016-17, as against US\$ 81.8 billion between FY 2011-12 and FY 2013-14
- Walmart India Pvt Ltd. is planning to set up 30 new stores in India over the coming three years
- US-based ecommerce giant, Amazon, has invested about US\$ 1 billion in its Indian arm so far in 2017, taking its total investment in its business in India to US\$ 2.7 billion
- Kathmandu based conglomerate, CG Group is looking to invest US\$ 155.97 million in India by 2020 in its food and beverage business
- International Finance Corporation (IFC) is planning to invest about US\$ 6 billion through 2022 in several sustainable and renewable energy programmes in India

- (k) Warburg Pincus, a Private Equity firm based in New York, has invested US\$ 100 million in CleanMax Solar, a rooftop solar development firm, which will be utilized to fund growth opportunities outside India and to improve product offerings
- (l) Morganfield Group, a Malaysian restaurant and bar chain, is planning to enter India by launching three of its brands, Morganfield's, Mocktail Bar and Snackz It, by the end of 2017. The company expects to open 250 outlets in India over the next five years.
- (m) SAIC Motor Corporation is planning to enter India's automobile market and begin operations in 2019 by setting up a fully-owned car manufacturing facility in India.
- (n) Toronto-based Canada Pension Plan Investment Board (CPPIB) made investments of US\$ 1.41 billion in India during FY 2016-17, taking their total investment in India to US\$ 3.50 billion (Rs 22,560 crore)
- (o) SoftBank is planning to invest its new US\$ 100 billion technology fund in market leaders in each market segment in India as it seeks to begin its third round of investments. Government's 'Make in India' campaign has attracted investment across sectors from various Chinese companies, as is evident from cumulative FDI inflows of US\$ 1.54 billion (Rs 9,933.87 crore) between 2014 and December 2016

### 1.6: RECENT STEPS TO ENHANCE FDI

The beginning of 2018 has experienced decline in GDP, construction sector in difficult stage, sluggish rate of industrial growth, poor rate of growth in employment. Considering this Modi government has declared the 100% FDI in single branding, broking companies operating in construction sector. 49% FDI is allowed in Air India which has been facing financial crisis since long time. Foreign Air Companies were allowed to invest upto 49% in Indian Air Services, however Air India was kept out of FDI. However, it was now allowed despite the outcry of opponents. In March, 2017, there was a debt burden of Rs. 48, 877 crores on Air India and loss in 2017-18 was Rs. 3579 crores. Vistara and Indigo have already shown the interest in investing in Air India. They will have to be prepared to fight against the giant foreign air companies. The process of disinvestment in Air India is likely to begin in February, 2018. It is being done despite the recommendation of Parliamentary Board not to go for disinvestment in Air India for coming five years.

It seems that the high expectations from Make in India have not materialized. The purpose behind Prime Minister's foreign visits was to attract foreign investors towards India. However, it seems that it has not materialized as per expected. Therefore, Prime Minister Narendra Modi has attempted to give a clear message that there is 'open-door' for FDI in India. The point to be noted here is that the government has not waited till presentation of Annual Budget. The condition of approval by government to FDI is almost withdrawn. However, it is made obligatory that RBI should be communicated about such FDI. The central government has made positive changes in its FDI policy and attracted foreign investment in defense, construction, insurance, pension & other financial services, broadcasting, air services and pharma sector etc. The condition of purchasing 340% raw material from Indian market has also been discontinued for investors investing in 'single brand retailing.'

In order to give a fillip to 'Ease of Doing Business', the government has given relief in FDI, and 49% investment in Air India. The government has given permission to foreign investors and foreign portfolio investors to invest in 'power exchange' under primary market. These initiatives would lead to growth in investment, income and employment in some coming years.

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