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Review Paper on FDI Trends and Their Analysis

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ABSTRACT

One of the world's top emerging markets is the Indian economy. It was regarded as one of the "fragile five" five years ago, but not anymore. Since, it has become one of the most popular international locations worldwide, where FDI has significantly increased. The process of luring foreign capital began. A New Economic policy was implemented in 1991. India has also unexpectedly reached unprecedented heights. At the FDI level during the 2000s. The text focuses on sectoral analysis using secondary data on FDI inflow in India between 1990-91 and 2020-21. The study also examines various aspects of the nation’s beneficial FDI spillovers.

INTRODUCTION

FDI is a significant source of funding for India's economic growth. After the crisis of 1991, India began its economic liberalization, and FDI steadily expanded. India now ranks first internationally for greenfield foreign direct investment (FDI) and is a member of the top 100 clubs for ease of business (EoDB).

The International Monetary Fund (IMF) has provided a conceptual framework for both the International Investment Position (IIP) and Foreign Direct Investment (FDI) from the perspective of the Balance of Payments (IMF). The value of each financial asset's stock and liability as described in the common components of the Balance of Payments are compiled for a certain date, such as the end of a year, by the IIP. The Balance of Payments is a statistical report that systematically summarises the economic transactions between an economy and the rest of the world for a given time period (transactions between residents and non-residents).

LITERATURE REVIEW

Foreign Direct Investment for Development

Developing nations, rising economies, and those in transition increasingly view FDI as a positive force. Source of income, modernization, and economic growth expansion and jobs. FDI has been liberalized across nations. Governments explored various strategies to draw capital. The question of pursuinga domestic policy to maximize the advantages of foreign presence in the country has been addressed—domestic industry. Foreign direct investment research for Development mainly aims to clarify the second by concentrating on how FDI affects macroeconomic growth in general and other welfare-enhancing activities and the pathways by which these advantages are felt.
(oced, 2002)

FDI Policy Reforms And Its Impact On FDI Trend In India

This study empirically looks for differences in Foreign Direct Investment (FDI) trends in India between the pre-reforms (1981-1990) and post-reforms (1991-2009) eras, as well as the effects of FDI policy reforms on FDI inflows., with the help of semi-log regression models, where the log of FDI has been regressed on time, a statically significant considerable difference between FDI trends in these two periods, leading to the conclusion of the substantial impact of FDI policy reforms on FDI inflows. When the whole study period (1981-2009) is divided into three sub-periods, i.e., 1981-1990 (pre-reforms), 1991-2000 (liberalization), and 2001-2009 (automatic approval) depending on observed structural breaks (confirmed by Chow’s Breakpoint test) at two points, i.e., 1992 and 2001, it is seen that though in the first half of post-reforms period (1991-2000), FDI trend has increased substantially as compared to the pre-reforms period, that trend in FDI growth is not maintained, instead deteriorated, after approval of FDI through automatic route in the year 2000, which might be a fall out of non-reporting to RBI as well as false reporting of FDI inflow, where reinvested earnings of FDI company is not shown as FDI, offsetting the substantial gain in FDI trend during 1991-2000
(Das, 2012)

Impact Of Foreign Direct Investment On the Indian Economy

India needs foreign direct investment (FDI) as a strategic investment component for achieving economic reforms and maintaining the pace of growth and development of the economy. The rates of FDI inflows in India were initially low due to the regulatory policy framework. Still, therehas been a sharp rise in investment flows since 2005 because the new policy has broadened. The goal of the study is to understand how FDI, by promoting domestic investment, boosting the creation of human capital, and facilitating technological transfers, is viewed as a crucial economic accelerator for Indian economic progress. The study's main goal is to look into how FDI affects India's economic growth. (Devajit, 2012)

Policy Developments Of FDI In India

Changes in FDI policies in India, especially after the reforms and liberalization of 1991, played an enormous role in the increased inflows. The historical FDI developments in India show how a government can maneuver with its FDI policy to strengthen domestic firms, develop core industries, protect areas of national interest and still ensure a systematic flow of inward FDI. (Sahiti, 2017)

Foreign Direct Investment: Impact on the Indian Economy

Over the past two decades, developing nations, especially those in Asia, have seen a tremendous increase in FDI inflows as a result of globalisation. Despite being a latecomer to the FDI scene compared to other East Asian nations, India has maintained its appeal as a welcoming location for international investors thanks to its huge market potential and a liberalised policy environment. In particular, the effects of FDI on the Indian economy after two decades of economic reform are examined in this research paper, along with the difficulties India faces in gaining an advantage in the global battle for FDI. The paper provides the significant policy implications from this analysis, besides drawing attention to the complexities in interpreting FDI data in India. (Malhotra, 2014)

Foreign Direct Investment, The Indian Scenario

FDI in India has a significant role in India's economic growth and development. FDI in India to various sectors can attain sustained economic growth and development by creating jobs and expanding existing manufacturing industries. The inflow of FDI in the service and construction sectors from April 2001 to March 2014 attained substantial, sustained economic growth and development by creating jobs in India. Computer, Software & Hardware, and Drugs & Pharmaceuticals sector were the other sectors to which attention was shown by Foreign Direct Investors (FDI). In the different sectors of the Indian economy, the Foreign Direct Investors' interest was, in fact, relatively poor.
(Rajeshbhai, 2015)

Analyzing FDI Policy and Challenges

The Modi government has introduced several initiatives to both attract FDI and liberalize FDI policy. These include improving infrastructure, revisiting the land-acquisition law, reforming the labor law, and streamlining the process for obtaining environmental clearances. The next level of reforms and policies will need to address many issues. Indian policymakers need to create a better environment for infrastructure development with an appropriate institutional framework such as a dispute-resolution mechanism, independent regulatory authority, and particular investment law. India will also need to revisit outdated rules, controls, regulatory systems, and government monopolies affecting investment. As part of this, states and the national government must agree on a Uniform Labour Code after an independent review and proper consultation with stakeholders. To make SEZs more attractive, adequate planning and design should include local-level solutions for land acquisition and infrastructure connectivity to SEZs, along with sector-specific policies to attract FDI. Finally, to address concerns raised by international stakeholders, Indian policymakers need to work to increase FDI caps in sectors with FDI potential and allow more sectors to come under the country's automatic approval route to decrease the hurdles to investing in India.
(Sahoo, 2014)

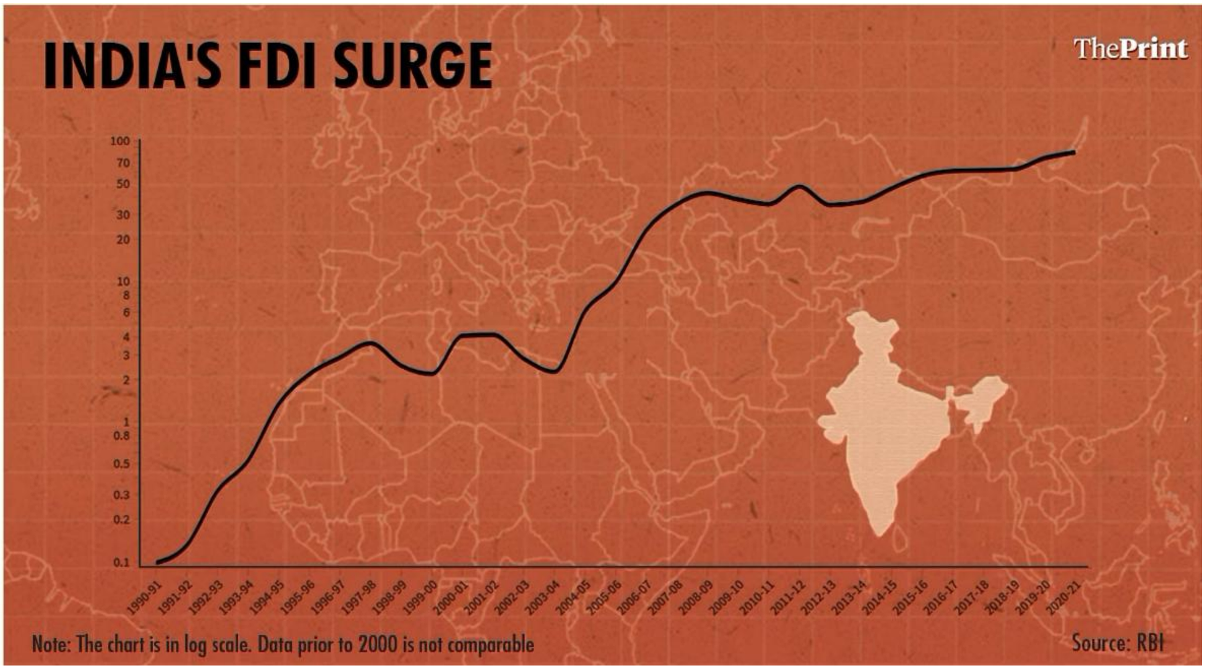
Analysis of Foreign Direct Investment Policy in India

The main aim of the researcher of the paper was to analyze the policy of FDI, keeping the main focus upon the scheme of a start up, which was introduced for the very first time—producing and exchanging services where you have your highest absolute advantage and comparative advantage results in an eﬃcient market. This is what FDI has tried to provide the economical market with. He researcher has attempted to compare the intent laid down by the policymakers and the objectives achieved after the implementation of the policy. He paper notes that the biggest defeat of the policy is because the scheme is not connected to the pathway that leads to improvement in the agriculture sector. Its most significant benefit is that it helps increase the country's Gross Domestic Product. Hence, there are pros as well as cons to the policy. So, the researcher has also tried to explain why India lacks an ideal place to implement the procedure and how more efficiency can be achieved under substantial improvement in the condition. (Mansi, 2018)

The trend of FDI in India and Its Impact on Economic Growth

The FDI trend in the Indian Economy is moving in an upward direction at reasonable speed. Based on the above analysis, it is evident that the Indian economy is one of the most promising investment destinations for most developed and developing nations. Moreover, we should grab this opportunity by liberalizing the rule and regulations for FDI in India. However, one question that is striking my mind is that despite having a good inflow of FDI in India just after the recession period, why we are not able to attract more FDI? The growth rate of FDI in India from 2010 to 2014 could be more attractive. So we need to find some factors causing the slowdown of FDI inflow in the Indian Economy. (Kumar, 2019)

TRENDS



However, according to data from the United Nations Conference on Trade and Development, India became the fifth-largest beneficiary of FDI globally by 2020.

Data from the Reserve Bank of India show that FDI into India climbed from $97 million in 1990–1991 to more than $81,722 million in 2020–21.

The FDI reforms implemented as part of the 1991 reforms significantly contributed to the government's decision to promote foreign investment.

The 40% limit on foreign equity investment was eliminated by the industrial policy of 1991. Additionally, it gave the Reserve Bank of India the authority to "automatically approve" foreign equity investments up to 51% in more than 30 different businesses. Over time, this list gradually increased.

By reducing numerous obligatory approval criteria, technology transfers from the foreign parent company to Indian joint ventures (JVs) were made more straightforward. Reductions in technology regulations and royalty obligations were also announced to draw FDI.

Indians could now buy televisions, modern cars, durable goods, and cutting-edge communication equipment. Following the declaration, businesses like Sony and Mitsubishi began producing goods in India.

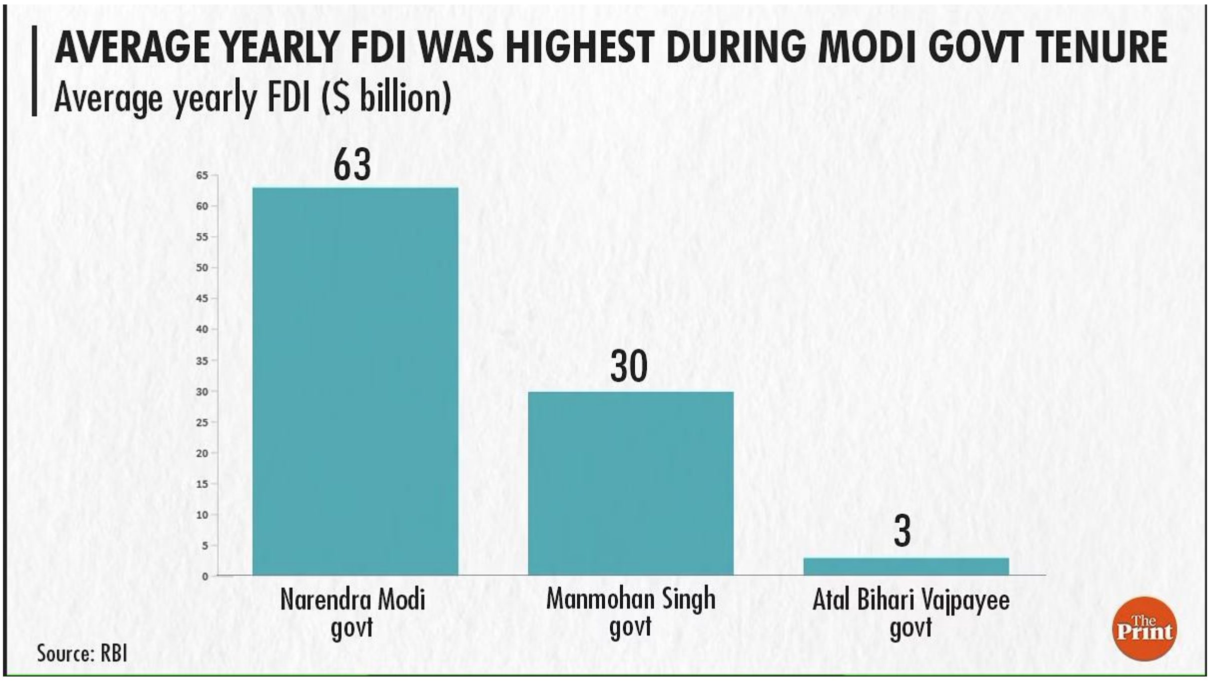
The vociferous Left parties and even the leaders of the ruling Congress opposed the relaxation of FDI restrictions vigorously. It was said that the administration made a mistake by caving into the IMF's demands.

Even senior Indian business leaders were concerned about how FDI might affect their operations. Before FDI or imports were permitted into India, they requested a level playing field in a message to Manmohan Singh, the country's then-finance minister.

Over time, FDI in India has snowballed. The Narendra Modi administration's seven years have seen the most significant FDI inflows.

FDI inflows totaled $440 billion over this period, compared to $305 billion during the UPA government's ten years under Manmohan Singh and $18 billion during the six years under Atal Bihari Vajpayee.

FDI inflows have averaged $63 billion annually since the Modi administration took office in 2014, compared to $3 billion under the Vajpayee administration and $30 billion annually during the UPA administration (2004–05–2013–14). (1998-99 to 2003-04).



However, the pre-and post-2000 figures are different because the definition of FDI was changed in 2000 to be more inclusive.

"The budget presented by Manmohan Singh in 1991 discussed luring foreign investment and elevating India's standing. However, that vision was never truly realized. According to Biswajit Dhar, professor at the Centre for Economic Studies and Planning in the School of Social Sciences at Jawaharlal Nehru University, FDI primarily entered the services sector rather than manufacturing.

"There is a composition issue, even if you look at the FDI inflows presently when overall FDI inflows have gone up," he said. Since numerous tax havens are the primary source of FDI inflows, the data suggests there may be much round-tripping. There have also been multiple takeovers and stock sales. How much money is spent on building new infrastructure and adding capacity, and how much is used to replace already-existing ability?

The government anticipates FDI in manufacturing, Dhar continued. That is not taking place. Sectors receiving investment that doesn't require it

Even though India experienced record FDI inflows in 2020–21 despite a pandemic, Jio Platforms of Reliance Industries received most of those funds, according to FDI data.

- **Top 5 sectors receiving the highest FDI** Equity Inflow during FY 2021-22 are-
    - Computer Software & Hardware (24.60%),
    - Services Sector (Fin., Banking, Insurance, Non-Fin/Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis, Other) (12.13%),
    - Automobile Industry (11.89%),
    - Trading 7.72% and
    - Construction (Infrastructure) Activities (5.52%).

- **Top 5 States receiving the highest FDI** Equity Inflow during FY 2021-22 are:-
    - Karnataka (37.55%),
    - Maharashtra (26.26%),
    - Delhi (13.93%),
    - Tamil Nadu (5.10%) and
    - Haryana (4.76%)

      (NAIR, 2021)

CONCLUSION

Foreign direct investment is undoubtedly essential to the nation's economic development since it increases employment possibilities, expands the technological knowledge base, and provides non-debt financial resources. However, India requires a strong FDI regulatory agency to guarantee the success of FDI and keep an eye on the operations of foreign corporations. It is considering that national security is equally crucial. It is necessary to preserve a balance between economic activities and national security even when the government relaxes its FDI restrictions.

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