Role of Foreign Investment in Indian Economy Market – A Qualitative Study

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Abstract

Investment in any country is based on volatile factors for continuous investment. Any developing and non-developed countries want investment in the form of foreign investment to enhance their country's infrastructure development, technological upgradation, economic development, resolve the unemployment factor, and many other facilities for the country's development. In this article, the researcher applied the qualitative research methodology to find out the foreign investment role in the Indian market. In this article, the database was based on only a secondary database. In this article, the author defines that foreign investment is continuously increasing in the Indian market to enhance the economic condition of India. The government of India is continuously focused on implementing new schemes for increasing foreign investment in India.

Keywords: Foreign Investment, FPI, FDI, FII, economic development

Introduction

To enhance the country's economy investment is an essential part. To get a better return investor invests their money in a national country and also the investment in a foreign country. Foreign investment is an investment in which investors have invested the money in another country for better profit. Developing and non–developed countries need foreign investment to grow the economic condition of that country.
In India Foreign investment took place after the liberalization concept was introduced in India. The idea of liberalization is introduced by Dr. Manmohan Singh in the year of 1991. After the liberalization, foreign investment has highly increased in India. In India Foreign Investment can be done the 2 ways, i.e. FDI and FPI.

FDI

The FDI is also known as Foreign Direct Investment, it's one kind of investment that provides the path to invest in any business or investment plan in another country. The FDI covers a huge part of the investment. By the FDI investor can invest their money in any company. FDI is an investment in which one non-resident investor can invest in a Residency Company/business. FDI can be made by the company, entity, individual, and government to invest in any company in another country. In FDI investors, invest to get a higher return from another authorized company in a different country.
In Foreign Direct Investment management control plays an important role in the investment market if a foreign company invests more than that company has a power of management control. FDI is a long-term investment plan and in the FDI locking period facility is also available. Each country has a different FDI limit in a different country.

The FDI is a long-term investment process in which investors are invested in fixed assets such as buildings, infrastructure factories, etc. The FDI is directly impacted by generating employment and helps to improve the infrastructure of the particular invested countries or host countries. The FDI is an investment in which business operation is established by one country to another country.

Type of FDI

In India FDI is classified into the 3 categories-

- Horizontal FDI – In horizontal FDI same product is manufactured in the home country and invested country. In horizontal FDI eliminates export costs. For example – A company in the USA manufactures steel and the company is making an FDI and starting a manufacturing company in India of the same product i.e. steel. It's under the horizontal FDI.
- Vertical FDI – In Vertical FDI a company splits the production chain, and manufactures different parts of one product from a different country. For example, A company in Australia manufactures the Car, but some parts of the car such as the engine, and seat spear parts are manufactured in different countries such as Canada, India, and China. So Australia Company has done the FDI in Horizontal ways.
- Conglomerate FDI – In a conglomerate, FDI is made by the investors in an entirely different industry in another country, an industry, not directly linked with the investor's business. For example – A company in the USA is related to the textile industry and the company does the FDI related to different industries such as the automobile or IT industry in India. The investor is FDI under the Conglomerate FDI.

Route of FDI

To invest the FDI investor can be invested in another country in 2 ways i.e. Automatic route and the Government route.

Automatic Route

If Investors have done the FDI in their interested area, investors do not need to get permission from the government or regulatory body. If an investor is invested in India in the form of FDI by taking an automatic route the investor does not need to take permission from the government of India and RBI. The investor gives a notification to the government or RBI. In India, 100% FDI is allowed except in some sectors.

Government Route

If an investor invests in FDI in any country the investor should get permission from the government or particular industry/company. In India if the investor is investing more than 5000 cr. Then the investor should get permission from the Cabinet Committee on Economic Affairs (CCEA). *"CCEA is a committee of Indian government body. The main objective of CCEA is taking an economic decision in India".*

In India, some sectors should get permission from the government such as – Mining, Telecom, Defence/cases relating to FDI in small arms, Print Media, Broadcasting, civil aviation, satellites, private security agencies, trading (single multi-brand and food products)

In India, some sectors are not open for FDI such as - the lottery business, chit fund, Nidhi companies, gambling and betting including casinos, real estate business construction of form house, manufacturing cigars, cigarettes, and tobacco, a sector not open to private sector investment, print media, and financial services not regulated or regulated by more than one regulator/ banking public, private and pharmaceutical.

FPI

The FPI stands for Foreign Portfolio Investment, FPI is a short-term volatile investment. If an investor wants to invest in another country through FPI, the investor does not need to focus on the company's work or day-to-day operations. The investors are only focused on the shares, bonds, and stock of that particular company. FPI is a liquid investment, investor can sell their all share, bonds, and stocks and go back to their home country. The investor can easily exit under the FPI. If investors get any opportunity to invest in any other country, then investors get a better return after investing in another country. FPI is a speculative investment so it's called the Hot money. FPI is shown in the country's capital account. If Investors buy 10% or less than 10% share of any foreign country the investor is under the FPI.

Type of FPI

Under Foreign investment, the FPI is classified into 2 parts i.e. Foreign Institutional Investor (FII) and Qualified Foreign Investment (QFI).

FII

The Foreign Institutional Investor (FII) is a short-term investment made by a foreign investor in stock exchange listed companies. By the FII, an investor does not target any specific company. The investment is done in financial instruments such as shares, bonds, mutual funds, and all other financial securities. The investors can easily enter and exit after the FII because of the short-term investment nature. The FII investors don't have management control power in the invested company.

QFI

If investors, groups of investors, or any association that belongs to those country, which are members of FATF. For doing the investment through QFI, investors do need to open an account with FII, but the investor needs to open De – a mate account or trading account in India.

"FATF stands for Financial Action Task Force. It is an inter-government body to resolve the problems related to terrorism financing and anti-money laundering problem. In today's scenario, 40 countries are members of FATF, and India has also been a member of FATE from 2006".

Literature Review

Kukaj & Ahmeti (2016), were defined the main aim of this study is to identify the causes of FDI failure in Kosovo Country and also explore the FDI impact on the economy of the country. This study is based on the analytical research methodology. This research is conducted in Kosovo & ex-Yugoslavian countries in Balkan Peninsula.In this article, the authors concluded that developing countries are highly invested in FDI. For a benefit developing countries are interested in investing in FDI. Industries are encouraged to invest in FDI for better outcomes.

Chhimwal & Bapat (2020), were study to explore the Indian market related to the unexpected flow of volatility of FPI and DII toward the large-cap, middle-cap, and small-cap stock. In this article authors applied the descriptive research methodology. This research is conduct in India. After doing the research, the authors concluded that the Indian market got positive market volatility after the unexpected flow of FPI, but the market volatility was reduced after the unexpected flow of DII. Volatility increases more after selling the FPI as compared to purchasing FPI and according to a study in a small-cap market, the unexpected flow of DII is more dominating.

Walia, et. al (2012), were defined the objective of this research study to identify the volatility of BSE Sensex towards the FII. To define the FII contribution in BSE Sensex India and also examine the behaviour pattern towards the FII pattern. This research is conduct in India. In this research article authors were applied the qualitative research methodology. The authors concluded that the BSE Sensex increases if FII inflows in the Indian stock market positively and if FII is negative when the BSE Sensex is decreased.

Ashraf & Baig (2015), were defined the main aim of this research article to explore the trading and investment strategies in the Indian stock market on the basis of using daily basis data such ratio of beta and debt-equity. This research is based on the Empirical Analysis and conduced in India. In this research article, the authors explained that long-term investment in the stock market provides a higher return with the use of low beta and low debt-equity. Short-term investments provide low returns with high beta and high debt-equity in the Indian stock market.

Raghavan & Selvam (2017), were study on main objective of this article is to explore the facts of FPI financial series and its determinates. This research article is based on the descriptive research methodology. The study was conduct in India. The authors defined that exchange rates play an important role in FPI and also have a significant effect on FPI. For the reason of time limit chances of high inflation is reduced in FPI.

Mohanasundaram & Karthikeyan (2012),were done the study to explore the Indian equity market's progress towards the flow of institutional investment and variables of macroeconomics. This study is based on the qualitative research methodology. This study was conducted in India. In this research article authors defined that a positive relationship is established between CPI inflation and a reverse relationship is established between CPI inflation and the equity market.

Singh, et. al (2012), were define the objective of the research article is to identify the required amount for foreign investment in India for economic growth and also define the role of FII and FDI. In this article authors were applied the analytical research methodology. This study was conduct in India. After doing the analysis the authors concluded that rather than developing and under-developing countries maximum foreign investment is attracted by the developed countries.

Objective of the Study

- To analyse foreign market trends in India
- Investment opportunity in the foreign market in India.
- To compare the Indian foreign market as compare with other country foreign market.

Research Methodology

In this research article, the research applied the qualitative research methodology to identify the trends in foreign markets. This research article is based on the secondary database. Collect the secondary data from international journals such as Scoups, Springer, government-authorized websites, and many more platforms that have relevant data related to foreign markets.

Result and Discussion

Foreign investment is an important pillar for enhancing the economy of any country. After getting the foreign investment the country increases employment and the infrastructure of the home country. The government of each country has different foreign investment policies to get a better return. International companies are investing in the Indian market, not only for unique investment, and to get tax incentives but also to increase the job creation, technology upgrades, and many more facilities.

The government of India has implemented policies of foreign investment to enhance foreign investment in India. The Indian government focuses on the "Make in India" campaign, which focuses on simplifying investment procedures and promoting foreign investment in different sectors. After entering the liberalization in India, foreign investment has also increased in India in different sectors.

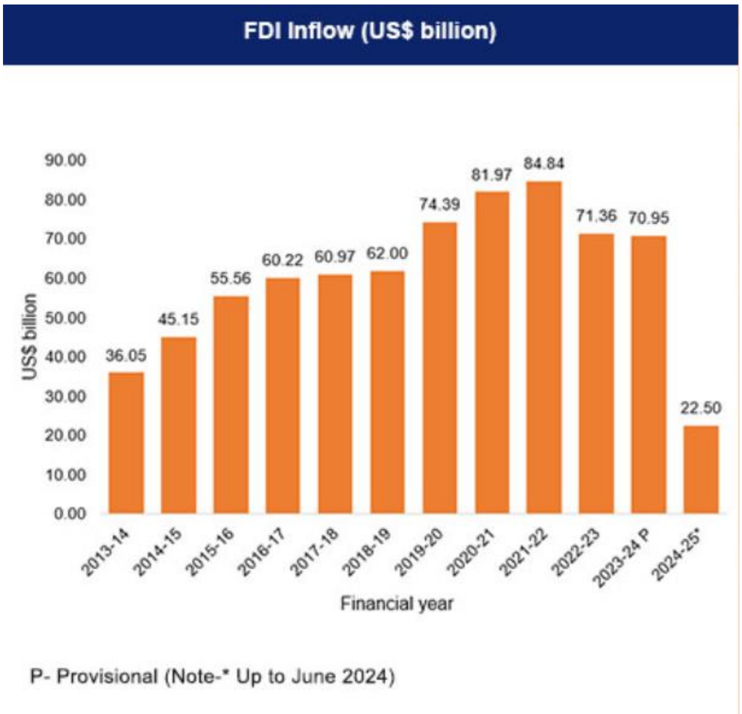

Fig . 1.1 FDI Inflow in India

According to the World Investment Report 2024, foreign investment increases the $36.1 billion from $27.4 billion in 2024. In 2023, India is 3rd highest investment in green field projects. India got a total of US$725.96 billion in the last 10 years. India gets foreign investment from over 170 countries invested in 33 state and union territories and 63 different sectors. Foreign investment in India has increased 20 times from the year 2000 to the 2024 year. The total FDI inflow into India is US$22.5 billion from April 2024 to June 2024, and the FDI equity inflow into India is US$ 16.2 billion from April 2024 to June 2024.

The service sectors are also attracted by the highest Foreign investment i.e. US $113.49 billion (16.33%) from the period of April 2000 - June 2024. In the below table, different service sector foreign investment amount is defined.

Table 1.1 Indian service sector FDI Detail

S.No.	Invested sector	FDI amount in US$	%
1.	Tele Communication	39.78 billion	5.72 %
2.	Auto Mobile	36.65 billion	5.27%
3.	Computer hardware and software industry	105.62 billion	15.20%
4.	Trading	43.85 billion	6.31%

Source: www.ibef.org

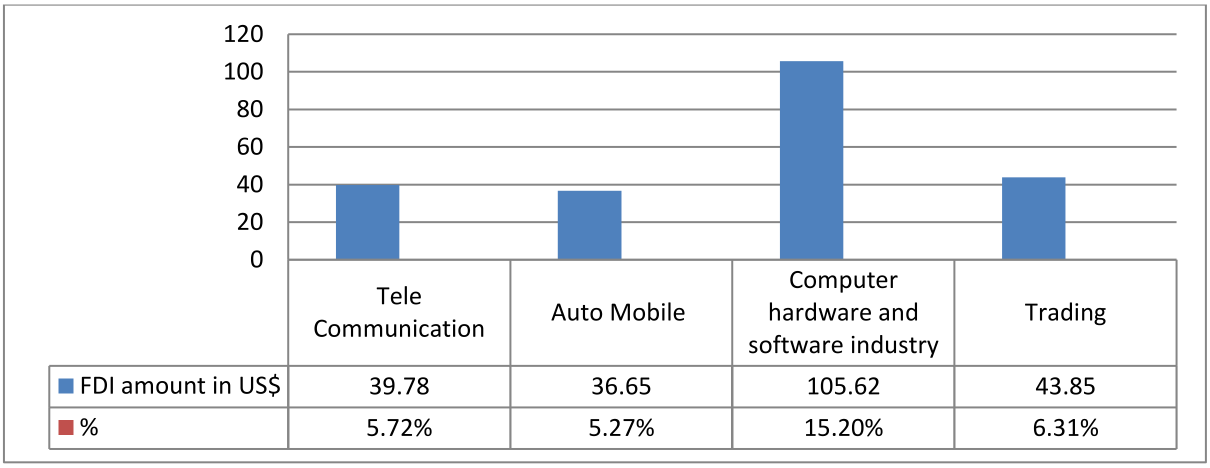

Fig. 1.2 Indian Service Sector FDI chart

India gets foreign investment from different countries from April 2000 to June 2024. In below table different countries names are defined those are invest in India through FDI.

S.No.	Country Name	FDI amount in US$	%
1.	Mauritius	175.05 billion	25%
2.	Japan	42.54 billion	6%
3.	Netherlands	51.13 billion	7%
4.	Singapore	163.85 billion	24%
5.	USA	66.70 billion	10%

Source: www.ibef.org

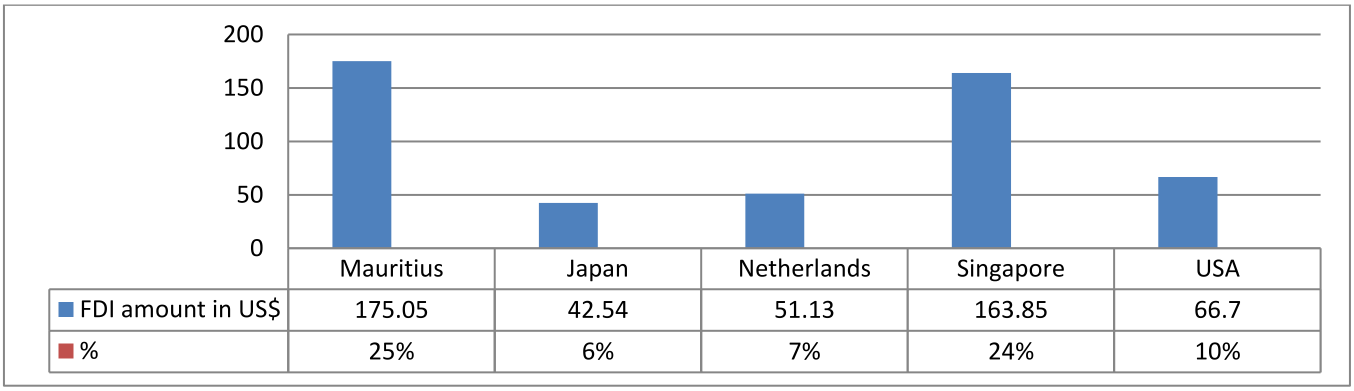

Fig. 1.3 Indian Invested Countries FDI chart

In the year of 2022 India gets the 352,697 cr. (US$42.78) 811 industrial investment proposals. The total amount of industrial investment proposals in the year of 2022 increased 23.6 lakh crore (US$298 billion) as compare to 13.8 lakh crore (US$ 169.5 billion) in previous year. Foreign investment in India has increased to US $42.1 billion during the period April – September 2024 as compared with US $ 33.5 billion a year ago.

The government of India has introduced the 'Atmanirbhar Bharat' vision. In this vision, the Union Cabinet of India approved the PLI scheme for white goods such as Air conditioners and LED lights. Under the PLI scheme union cabinet of India has decided the US $752 million from the Financial year 2021 – 2022 to the Financial Year 2028- 2029. After the approval of the 64 applicants, the PLI scheme has US$ 816 million. The Indian government amended the foreign investment market to permit 100% FDI in the space sector.

Finding

- Foreign investment is important for developing the country's infrastructure, enhancing technologies, creating jobs, and many other developments.
- After the liberalization was introduced in India, foreign companies were more invested in Indian companies and set up their manufacturing plant in India.
- In India service sector gets more foreign investment as compared with other sectors.
- India focused on the "Make in India" concept and implemented foreign investment to get a good investment as a foreign investment.
- In the Indian economy market, foreign investment plays an important role in enhancing the development of the country.

Conclusion

Foreign investment in India is playing an important role in enhancing the economy of India. The government of India is focused on increasing foreign investment for infrastructure development job creation and many more other facilities. After introducing the concept of liberalization, foreign investment has increased in India. The service sector gets the highest foreign investment in India. From the period of 2000 to 2024 foreign investment is increasing continuously. The government of India has introduced the “Atmanirbhar Bharat” vision, the main objective of “Atmanirbhar Bharat” is to increase the inflows in FDI, income, growth of employment, and doing the business in Indian market.

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