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OPPORTUNITIES AND PROSPECTS FOR FDI IN INDIAN INDUSTRIES

Dr.K.Durga Prasad[1], Dr.Banda Rajani[2], Dr. Soofi Asra Mubeen[3]

[1] Associate Professor, Centre for Management Studies, ICFAI, Law School, Hyderabad

[2]Associate Professor, Department of Commerce and Business Management, Chaitanya Deemed to be University, Warangal

[3]Business Studies Department, Higher College of Technology, Muscat, Oman

ABSTRACT

Economy policy reforms have played vital role in the performance of the Indian economy since 1991. Among other things, the reforms have involved opening up the economy, making it more competitive, getting the Government out of the regulations, empowering the States to take more responsibility for economic management, and thereby creating a kind of competition among them for Foreign Investment. Foreign Direct Investment (FDI) in India has grown substantially in the last decade following the liberalization of Indian economy in 1991. FDI gives opportunities to Indian Industry for technological up-gradation, gaining access to global managerial skills and practices, optimizing utilization of human, and natural resources and competing internationally with higher efficiency. Most importantly, FDI is central for India's integration into global production chains, as it brings several advantages like new capital, technology, managerial expertise, and access to foreign markets, involving production by multinational corporations spread across location all over the world. India has one of the most liberal economy policy frameworks for FDI and foreign technology transfer. FDI up to 100 percent is permitted under the automatic route in most of the sectors.

Key Words: Opportunities, challenges,Prospects, Indian Industries, Sectrol Anlysis.

JEL Classification:C23, O47,Z0, Y1,F21

1. INTRODUCTION

Retailing is one among the most important sectors of Indian economy. The unorganized retail sector in India occupies 97% of the retail business and therefore the rest 3% is contributed by the organized sector.The unorganized retail sector contributes about 13% to the GDP and absorbs 6% of our labour force. On 20th September, 2012 the Government of India has approved 51% FDI in Multiband retail and 100% (revised) in Single Brand retail sector through Government Route with some riders. FDI within the retail sector in India will cause economic process and creation of latest jobs along side rural infrastructure development. But the opposite view point is that mass scale job loss will happen particularly in manufacturing sector with the entry of the large MNCs like Wal-Mart and Carrefour, Metro PLC and IKEA etc. (K. R. Kaushi and Dr. Kapil Kumar Bansal, 2012).To form capital for economic activities there's 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 each country want to become independent and independent and thus demand for financial resources grown to several fold(Maathi K. Mathiyazhagan, 2005).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 supreme revolution in Indian financial sector and transformed conservative financial sector into global at par and led to the emergence for brand spanking 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(Sayed Mohammad Tariq Zafar, Waleed Hmedat,SyedAshfaq Ahmed, 2017).

The present paper has been devoted to study and aimed at present the sectoral analysis of actual inflows of FDI as to find out the top sectors, which attract major portion of inflows of FDI and evaluate the sector-wise Prospects and Opportunities of Foreign Direct Investment in India.

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2. DATA AND METHODS

The present research paper is an attempt of descriptive research, based on the secondary data sourced from various research papers, journals, magazines, articles, media reports and Government reports. The researchers have to examine FDI sector wise inflows for a period from 2005 to 2018 in to India.

3. HYPOTHESIS

H_0: There is no significant difference between different industrial sectors in India so far attracting FDI inflows.

4. DATA ANALYSIS & INTERPRETATION

1. Statement on Sector-Wise Inflow of FDI

Table. 1. Statement on Sector-Wise Inflow of FDI (Amount in Millions)

S.No	Sector	2005-2015 (Aug-Dec)	2015 (Jan-Dec)	2016 (Jan-Dec)	2017 (Jan-Dec)	2018 (Jan-Dec)	Total Rs.	Total US$	% as to Total
01	Electricals Equipment	110909	13550	39667	45938	27031	237094	5496	14.13
02	Telecommunication	98994	7273	6088	9639	21374	143368	3372	8.67
03	Transportation Industry	98763	15134	8064	9659	1531	133151	3178	8.17
04	Service Sector	65939	13904	11456	31445	5299	128042	3091	7.95
05	Fuels (Power and Oil Refinery)	89762	7419	7160	2765	2657	109763	2581	6.64
06	Chemicals	53994	2849	8677	9045	11234	85798	2143	5.51
07	Food Processing Industries	38228	3076	3690	1783	245	47023	1179	3.03
08	Drugs and Pharmaceuticals	16894	2793	15711	5107	2609	43114	1007	2.59
09	Cement and Gypsum Products	12167	440	7	19698	0	32313	747	1.92
10	Metallurgical Industries	10591	1455	8584	6322	1212	28163	655	1.68

(Source: DIPP, Ministry of Commerce and Industry, Government of India April 2018)

The total inflows of FDI into India covering all the industrial sectors accounted for US$38.9 billion duringAugust 2005-2015. Out of this, the top ten industrial sectors have attracted a major amount of US$23.4 billion which is around 60.2 per cent of the total FDI inflows during the period (See Table. 1). Further, it has been observed that some of the sectors such as, Electricals Equipment, Telecommunications, Transportation Industry, Service sector, Fuels etc., played a predominant role in attracting high amount of FDI inflows. Accordingly, these particular industrial sectors have been identified as presenting tremendous opportunities for foreign investment.

As far as the sector-wise distribution of FDI inflows are concerned, the top five sectors receiving FDI in India are

i. Electrical Equipment US$ billion (accounting for 14.13 per cent of total inflows)
ii. Telecommunication US$3.37 billion (8.67 percent)
iii. Transportation industry US$ 3.18 billion (8.17 per cent)
iv. Service Sector US$3.1 billion (7.95 percent)
v. Fuels including Power and Oil Refinery US$ 2.58 billion (6.64 per cent)

2. ANOVA

Table -2 ANOVA Two-Factors without replication

Particulars	Count	Sum	Average	Variance
Electrical equipment	5	237094.5	47418.9	1.41E+09
Telecommunication	5	143368.3	28673.66	1.58E+09
Transportation Industry	5	133151.2	26630.24	1.65E+08
Service Sector	5	128042.5	25608.43	6.03E+09
Fuels (Power and Oil Refinery)	5	109762.5	21952.49	1.44E+08

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Chemicals	5	85798.5	17159.7	4.34E+08
Food Processing Industries	5	47022.54	9404.51	2.61E+08
Drugs and Pharmaceuticals'	5	43114.49	8622.90	50291094
Cement and Gypsum Products	5	32312.53	6462.51	81854901
Metallurgical Industries	5	28162.67	5632.54	17692034

Table -3ANOVA

Source of variation	SS	Df	MS	F	P-Value	F crit
Within the Rows (Sectors)	7.73E+09	9	8.58E+08	3.11497	0.007147	2.152607
Within the columns (Years)	2.02E+10	4	5.06E+09	18.34418	2.69E-08	2.633534
Errors	9.92E+09	36	2.76E+08			
Total	3.79E+10	49				

The P-value within the sectors (0.007147) is lesser than 0.05 at 5 per cent level of significance. As such, the null hypothesis is rejected. Therefore, it may be concluded there is significant difference between different sectors of Indian economy so far as the magnitude of FDI is concerned. However, P-value within the years (2.69E-08) is greater than 0.05 at 5 per cent level of significance. As such, the null hypothesis is accepted and concluded that there is no significant difference between the various sectors in attracting FDI inflows over the years 2.

5. PROSPECTS AND OPPORTUNITIES OF FDI IN SELECT INDUSTRIALS SECTORS

5.1 Electrical Equipment Sector

The electrical Industry, constituting Electrical Equipment, computer software Industry, Electronics, computer Hardware, and others attracted 14.13 percent of the total FDI inflows in the post-liberalization period since 2005 which accounted for US$5.5 billion. The present low level of penetration provides tremendous opportunities for immediate market expansion in almost every segment of electronics.

5.1.1 Prospects and Opportunities

i. Consumer electronics is a high growth sector, which also has an active replacement market.
ii. Control and industrial electronics face increasing demand from projects in power, refineries, petrochemicals, cement etc. Demand for test and measuring instruments will be growing with the rapid development of communication.
iii. As strong base exists for the manufacture of microcomputers, mini-computers, and mainframe computer system workstation and other manufactured products
iv. In the software area, India has the third largest pool of software writing talent with world-class skills and at relatively low cost, thus, providing tremendous outsourcing opportunities.
v. The electronic component sector provides opportunities for joint ventures and contract manufacturing activities
vi. The policy provides foreign equity participation up to 100 percent and several incentives for EOUs, EHTPS, and STPS.

5.2 TELECOMMUNICATION

Telecommunication is a prime support service needed for rapid growth and modernization. It is also one of the fastest growing sectors in India and has immense potential for growth. Abundant investment opportunities exist in areas of basic and cellular communication infrastructure, optic Fiber cable, gateways satellite based communications, etc. The telecom sector has witnessed the presence of many leading foreign companies including US companies.

5.2.1 Investment Policy

Incentives for foreign collaboration coupled with an attractive rade and investment policy have made India an attractive market for telecom equipment suppliers and service providers.

- In Basic, Cellular, value added services and global mobile personal communications by satellite, FDI is limited to 49 percent subject to licensing and security requirements.

- In ISPs with gateways, ratio-paging and end-to end bandwidth, FDI is permitted up to 74 percent with FDI, beyond 49 percent requiring Government approval. These services would be subject to licensing and security requirements.
- No equity cap is applicable to manufacturing activities.
- FDI up to 100 percent is allowed for the following activities in the telecom sector:
    i. ISPs not providing gateways (both for satellite and submarine cables)
    ii. Infrastructure Providers providing dark fiber (IP Category I)

5.2.2. Prospects and Opportunities

The two important goals of the telecom sector are I delivering low-cost voice telephony to the largest possible number of individuals, and ii delivering low cost high speed computer networking to the largest number of firms. The number of phone lines per 100 persons of the population, which is called teledensity, has improved rapidly, from 3.6 in March 2011 to 4.9 in December in 2012. This is way below international standards and is not becoming of country aspiring to be major players in the global economy of the 21st century. This means that opportunities for investment in this sector are immense.

5.3 TRASNPORTATION INDUSTRY

The transportation industry includes the automobiles industry, air and sea transport, passenger cars, auto ancillaries etc. This sector occupies 3rd largest destination of FDI with US$ 3.18 billion indication 8.17 percent of total FDI inflows during August 2005 to 2018.India automotive components industry is the most lucrative sector for foreign direct investments. Hundreds of collaborations foreign direct investments have been made in recent years and there is tremendous potential for more. Markets are huge and growing both within India and overseers. The Automotive Components manufacturers Association (ACMA) represent this sector in India.

5.3.1 Prospects and Opportunities

- India offers a relatively low cost production base and is strategically positioned as a launching base for third country export to Asia-Pacific and European markets.
- Growth in road transport, increasing urbanization and privatization of public transport will translate into growing demand for commercial vehicles. During 2015-16, automobile production grew by 15.1 percent. This was on top of growth of 18.6 percent during the previous year. Commercial vehicles witnessed a sharp growth of 35.1 percent, while passenger cars grew at 38.3 percent. A major development in Indian manufacturing has been the success in exports of automobile components and finished vehicles.
- Growth of consumer finance, leasing and hire-purchase options for vehicle dealers and buyers also increased demand.
- A well developed components industry offers opportunities for sourcing. The scope is vast for foreign collaborations to produce branded models stressing on emission standards, fuel efficiency, advanced features and contemporary styles.

5.4 SERVICE SECTOR

This sector gained US$3.09 billion of FDI inflows, accounting for 7.95 percent of the total amount of FDI received during the period 2005-2018. The Service sector comprises of Financial, Non-Financial, Banking Services, Insurance, Hospital & Diagnostic Centers, Research and Development, Education and other Services.

5.4.1 Prospects and Opportunities

- Local financial institutions such as the Industrial Development Bank of India(IDBI), Industrial Credit, and Investment Corporation of India(ICICI), Industrial Finance Corporation of India(IFCI), Unit Trust of India(UTI), and the shipping Credit and Investment Corporation of India (SCICI) have raised billions through the most sophisticated financial instruments including Deep Discount Bonds.
- The insurance sector nationalized since 1971, and opened up to private and foreign investor. Foreign investment and access to foreign capital by domestic companies has been progressively liberalized in India.

5.5 POWER SECTOR

The power sector is India top infrastructure priority area. Shortage of power has been cited as one of the main problems of the economy and it is realized that the future is bleak unless enough power is generated for industrial and consumer use. That is precisely why the government accords top priority to foreign investment in this capital – intensive sector.

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The main elements of the policy of the Government regarding private investment in the power sector are the following.

i. Foreign Investment in the power sector is actively encouraged and can take place either in the form of a joint venture with an Indian partner or as a fully owned operation with 100 percent foreign equity. According to the new liberalized policy, foreign Direct Investment up to 100 percent is allowed in respect of projects relating to electricity generation, transmission and distribution, other than atomic reactor power plants. There is no limit on the project cost and quantum of foreignDirect Investment
ii. Companies may operate either as power distribution or generator companies.
iii. Power generation companies are required to supply to State Electricity Boards (SEBS) who in turn will distribute the power
iv. Since the entry of private sector in the power generation, Central Electricity
v. Authority (CEA) has accorded techno-economic clearance (TEC) to 56 private sector power projects with a capacity generate 28,849MW.

5.5.1 Prospects and Opportunities

The Power Sector including Oil Refinery attracted Foreign Direct Investment inflows amounting to US$2.58 billion, accounting for 6.64 per cent of total FDI received during the study period i.e. 2005-2015 (See Table. 1).

- 100 percent foreign equity is permitted in this sector
- Private power projects are based on a 16 -18 percent return on equity, so their costs are high. Since they have to sell their power to the financially weak State Electricity Boards, there we concerns about whether the foreign investors would get their money back. To allay these fears, the Government provides guarantees to foreign investors in projects found viable.
- The World Bank has advised that the State Electricity Boards be restructured into smaller unitsfor privatization. This has been done in Greater Noida in North Indian state of Uttar Pradesh and the general Mood is to do the same in other parts of the country.
- Special incentive package including tax holiday, rationalized depreciation, reduced customs duty on equipment etc has been devised. Further, the power sector could work in a reliable manner to increase the efficiency of capital utilization in the country. The government has drawn up an ambitious programme, which entails new generation capacity of 1, 00,000 MW (which would roughly double the existing generation capacity), and substantial investment in transmission and distribution.
- A blend of thermal, hyudel and nuclear sources of energy are available. Non conventional energy form solar, wind and tidal sources are also encouraged.

6. CONCLUSION

FDI plays a big role in enhancing the extent of economic growth of the country. The Government cannot make investments of this magnitude because of resource limitations. The private sector and foreign companies are therefore, welcomed into this sector, both as direct investors and exporters of equipment and technology. With a view to supplementing the efforts of public sector service providers, and to ensure greater competition in providing basic telephone service, private companies are being licensed to offer basic services. Presently, these services are being provided in the States of Andhra Pradesh, Telangana, Gujarat, Haryana, Karnataka, Maharashtra, Madhya Pradesh, Rajasthan, Punjab, Tamil Nadu and Delhi. Automotive components manufactured in India are of top quality and used as original components for vehicles made by such top international companies as General Motors, Mercedes, and Daewoo among others. Considerable scope exists for providing modern and innovative service packages in the financial sector. The most promising, sub-sectors of the financial services market are capital markets, venture banking, consumer financing, mutual funds and infrastructure financing. Series of approvals are required for power projects. These include in principle endorsement of a project followed by approvals of techno-feasibility reports, funding plans, clearance by environmental authorities, Foreign Investment Promotion Board.These directions for development of the power sector involve enormous requirement of capital, and motivate the quest for private and foreign investment.

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