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Change in Scenario of Foreign Investment in India (From 20th to 21st century)

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Abstract

The broad thrust of the new policies is not very different from the changes being implemented in other developing countries and also all over the erstwhile socialist world. They aim at reducing the extent of Government controls over various aspects of the domestic economy, increasing the role of the private sector, redirecting scarce public sector resources to areas where the private sector is unlikely to enter, and opening up the economy to trade and foreign investment. So far as other modes of investment in India are concerned, these are equally imperative in order to understand various strategies / steps taken towards path of success achievement by India. Thus, the knowledge of these other important aspects, especially various rules & regulations framed along with FDI, becomes imperative in order to get better picture of economic reforms. Ultimately, the combined efforts of DI & PI produced an increasing trend of Rs. 14,808 crore per annum. After initial negative results for five years, it is expected to touch Rs. 436,458 crore by 2024-25, which is a good sign. Thus, the present paper depicts that the World is looking towards India inspite of all ups and downs (the second largest populated country) as secure and fruitful investment avenue. Things would definitely take better shape, if potholes in the path of progress are timely taken care of.

Key Words: *Economic Policies, foreign investment, Economic Reforms, Financial Stability, Flow of Foreign Investment.*

1. INTRODUCTION

Past several years have seen major changes in India's economic policies marking a new phase in India's development strategy. The broad thrust of the new policies is not very different from the changes being implemented in other developing countries and also all over the erstwhile socialist world. They aim at reducing the extent of Government controls over various aspects of the domestic economy, increasing the role of the private sector, redirecting scarce public sector resources to areas where the private sector is unlikely to enter, and opening up the economy to trade and foreign investment.

These changes have been accompanied by a lively debate in India and have also attracted interest abroad. International opinion has typically welcomed the reforms and generally urged a much faster pace of implementation, especially in view of changes taking place in other countries. Within India, opinion has been more varied. There are some who question the very direction of reform, but this is definitely a minority opinion. More generally, the broad direction of reform has met with wide approval, but there are differences of view on what should be the pace and sequencing of reforms. While there is widespread support for the elimination of bureaucratic controls over domestic producers, there are differences on such issues as the speed at which protection to domestic industry should be reduced, the extent to which domestic industry can be subjected to foreign competition without being freed from the currently prevalent rigidities in the domestic labour market; the extent to which privatization should be pursued etc. These are obviously critical issues in designing a reform programme. They become particularly important when all the elements of an optimal package cannot be fully implemented simultaneously due to social or political constraints. This confronts reformers with typical "second best" problems since the infeasibility of one element of the package could make pursuit of other elements anfractuous even counter- productive. The recently developed literature on the sequencing of reform in developing countries provides some guidance in making these difficult choices though it is far from being conclusive.

So far as other modes of investment in India are concerned, these are equally imperative in order to understand various strategies / steps taken towards path of success achievement by India. Thus, the knowledge of these other important aspects, especially various rules & regulations framed along with FDI, becomes imperative in order to get better picture of economic reforms.

2. ECONOMIC REFORMS – A PLODDING APPROACH

An important feature of India's reform programme, when compared with reforms underway in many other countries, is that it has emphasized gradualism and evolutionary transition rather than rapid restructuring or "***shock therapy***". This gradualism has often been the subject of unfavourable comment by the more impatient advocates of reform both inside and outside the country. Before considering the contents and design of the Indian reform programme, it is useful to review some of the main reasons why India's reforms have followed a gradualist path.

One reason for gradualism is simply that the reforms were not introduced in the background of a prolonged economic crisis or system collapse of the type which would have created a widespread desire for, and willingness to accept, radical restructuring. The reforms were introduced in June 1991 in the wake a balance of payments crisis which was certainly severe. However, it was not a prolonged crisis with a long period of non-performance. On the contrary, the crisis erupted suddenly at the end of a period of apparently healthy growth in the 1980s, when the Indian economy grew at about 5.5% per year on average. This may appear modest by East Asian standards, but it was much better than India's previous experience of 3.5 to 4% growth and was also better than the average growth rate of all developing countries taken together in the same period.

Not only did economic performance improve in the eighties, this improvement was itself perceived to be the result of a process of evolutionary reform. By the beginning of the decade of the eighties it began to be recognized that the system of controls, with a heavy dependence on the public sector and a highly protected inward oriented type of industrialization, could not deliver rapid growth in an increasingly competitive world environment. The sustained superior performance of East Asian countries was evident to all by the mid-eighties, and this helped create a perception that India could and should do better, but the approach remained one of evolutionary change. Several initiatives were taken in the second half of eighties to mitigate the rigors of the control regime, lower direct tax rates, expand the role of the private sector, and liberalize licensing controls on both trade and foreign investment. However, these changes were marginal rather than fundamental in nature amounting more to loosening controls and operating them more flexibly rather than a comprehensive shift away from a regime of controls. Since the economy was seen to have responded well to these initiatives, with acceleration in growth in the 1980s, it created a strong presumption in favour of evolutionary change.

Finally, gradualism was the inevitable outcome of India's democratic and highly pluralistic polity in which economic reforms can be implemented only if they are based on a sufficiently wide popular consensus. The favourable experience of liberalization in the 1980s had created an intellectual climate for continuing in the same direction, and the crisis of 1991 certainly "concentrated the mind" in favour of bolder reforms, but the pace of reforms had to be calibrated to what would be acceptable in a democratic polity. This consideration was all the more important in June 1991 since the new Government did not at that time have a majority in Parliament.

The reform programme initiated in June 1991, though gradualist in its approach was nevertheless very different from the incremental approach to reforms of the 1980s. As far as objectives are concerned, the current reforms are based on a much clearer recognition of the need to integrate with the global economy through trade, investment and technology flows and for this purpose to create conditions which would give Indian entrepreneurs an environment broadly comparable to that in other developing countries, and to do this within the space of four to five years. As far as instruments are concerned, there is clear recognition that the reforms cannot be limited to piecemeal adjustments in one or other aspect of policy but must bring about system changes affecting several sectors of the economy. The comprehensiveness of the reforms was not perhaps fully evident at the very beginning, when the primary focus was on restoring macro-economic stability, but as the reforms proceeded the scope and coverage of the reform effort was more clearly outlined. The main elements of the reform are summarized in this section, which also indicates differences in the pace and sequencing of individual elements in the package.

3. FINANCIAL STABILITY

On sequencing of reforms yields (as per various literatures available on this aspect) one can reach at this compact conclusion that fiscal stabilization is an essential **precondition** for the success of economic reforms. The design of India's reform programme was fully in line with this conclusion and fiscal stabilization was given the highest priority, especially in the initial phase of crisis management when the current account deficit was high and inflation in double digits.

The Central Government fiscal deficit had expanded steadily during the eighties and had reached a peak level of 8.4% of GDP in 1990-91. Allowing for deficits of the State Governments, this meant an overall Government fiscal deficit of around 10% which is high by any standard. A reduction in the Central Government's fiscal deficit was therefore critical for the reforms to take off. The first year of the reforms saw a substantial reduction in the Central Government fiscal deficit from 8.4% of the GDP in 1990-91 to 5.9% in 1991-92 and further to 5.7% in 1992-93. Some of the reduction in the fiscal deficit in the first two years was achieved by systemic improvements which permanently strengthened the fiscal situation, such as for example the abolition of export subsidies in 1991-92 and the partial restructuring of fertilizer subsidy in 1992-93. Another important systems change was the announcement that budget support to loss making public sector units in the form of Government loans to cover their losses would be progressively phased out. However, part of the fiscal adjustment in the first two years was also achieved by restricting development expenditure, including expenditure on social and economic infrastructure. Despite this limitation, the success achieved in fiscal consolidation in the first two years was commendable, with the fiscal deficit being reduced by 2.7 percentage points of GDP. In this respect the management of reforms in the first two years was entirely in line with the prevailing consensus on sequencing.

The process of fiscal consolidation was to continue into the third year of the reform with the fiscal deficit expected to be reduced to 4.6% of GDP in 1993-94. In the event, there was a substantial slippage from this target and the fiscal deficit in 1993-94 is estimated at 7.3% of GDP. Part of the slippage (about 1 percentage point of GDP) was due to a shortfall in tax revenues compared to Budget targets. Customs revenues were substantially below the target because imports were much lower than expected, despite significant reductions in customs duty rates and liberalization of imports implemented as part of the structural reform (see below). Excise duty collections also fell short because industrial production did not recover as rapidly as expected. The rest of the slippage (about 1.7 percentage points of GDP) was due to expenditures exceeding targets. Delays in adjusting food prices in the public distribution system led to higher food subsidy and expenditures on development were higher than projected partly because of larger flows of resources to support development expenditure of the States. To some extent the overshooting of expenditures reflects pent up pressures, which had built up over two years of fiscal consolidation and were difficult to resist.

It is also true that the overshooting of expenditure in 1993-94 was to some extent tolerated in 1993-94 because the economy was suffering from underutilization of capacity. Public sector investment, especially by the States, was held back by fiscal constraints and private sector investment was also restrained as the corporate sector re-adjusted its investment plans in line with the new, much more competitive economic environment. The prevalence of excess capacity in parts of the economy, combined with a surprisingly easy external payments position,

Table 1

Year	(I) FOREIGN DIRECT INVESTMENT					
	Rs. Crore	RELATIVE CHANGES		US $ Million	RELATIVE CHANGES	
		Rs. Crore	%		Rs. Crore	%
1990-91	174			97		
1991-92	316	142	81.61	129	32	32.99
1992-93	965	649	205.38	315	186	144.19
1993-94	1838	873	90.47	586	271	86.03
1994-95	4126	2288	124.48	1314	728	124.23
1995-96	7172	3046	73.82	2144	830	63.17
1996-97	10015	2843	39.64	2821	677	31.58
1997-98	13220	3205	32.00	3557	736	26.09
1998-99	10358	(2862)	(21.65)	2462	(1095)	(30.78)
1999-00	9338	(1020)	(9.85)	2155	(307)	(12.47)
2000-01	18406	9068	97.11	4029	1874	86.96
2001-02	29235	10829	58.83	6130	2101	52.15
2002-03	24367	(4868)	(16.65)	5035	(1095)	(17.86)
2003-04	19860	(4507)	(18.50)	4322	(713)	(14.16)
2004-05	27188	7328	36.90	6051	1729	40.00
2005-06	39674	12486	45.92	8961	2910	48.09
2006-07	103367	63693	160.54	22826	13865	154.73
2007-08	140180	36813	35.61	34835	12009	52.61
2008-09	173741	33561	23.94	37838	3003	8.62
2009-10	179059	5318	3.06	37763	(75)	(0.20)
2010-11	138462	(40597)	(22.67)	30380	(7383)	(19.55)
2011-12	219854	81392	58.78	46556	16176	53.25
2012-13	186498	(33356)	(15.17)	34298	(12258)	(26.33)
TOTAL	**1357413**	**186324**	**1063.62**	**294604**	**34201**	**883.32**
AVERAGE	**59018**	**8469**	**48.35**	**12809**	**1555**	**40.15**

Source : RBI.

and a sharp reduction in inflation to less than 6% in mid-1993 led to a willingness to accept a more expansionary fiscal policy.

The unexpected increase in the fiscal deficit in 1993-94 is understandably a cause of considerable concern among observers of the reform programme. Experience in many developing countries provides several examples of reform efforts which have been aborted by premature easing of fiscal control. The Government has recognized this problem and has indicated that the deviation from the path of fiscal consolidation in 1993-94 was a temporary phenomenon and will be reversed in 1994-95. Accordingly, the target for the fiscal deficit in 1994-95 has been set at 6 per cent of GDP, which is a significant improvement over the actual performance in 1993-94.

An important new initiative in the 1994-95 Budget is the announcement that there will be a pre-determined cap on the extent of monetization of the Government deficit which did not exist earlier since the Government could borrow from the Reserve Bank without limit. It is now proposed to operate a ceiling on Government borrowing from the Reserve Bank by authorizing the Reserve Bank to auction Treasury Bills

Chart 1 (A) : FDI - Changes in % (Indian Rupee)

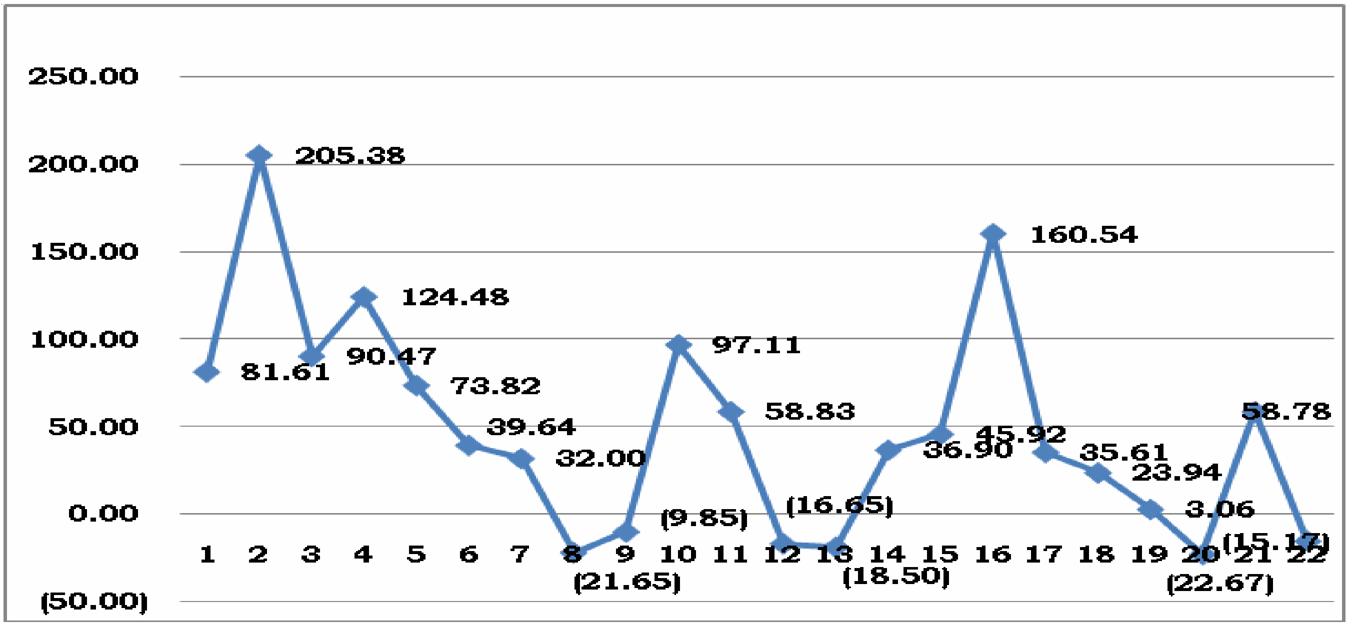
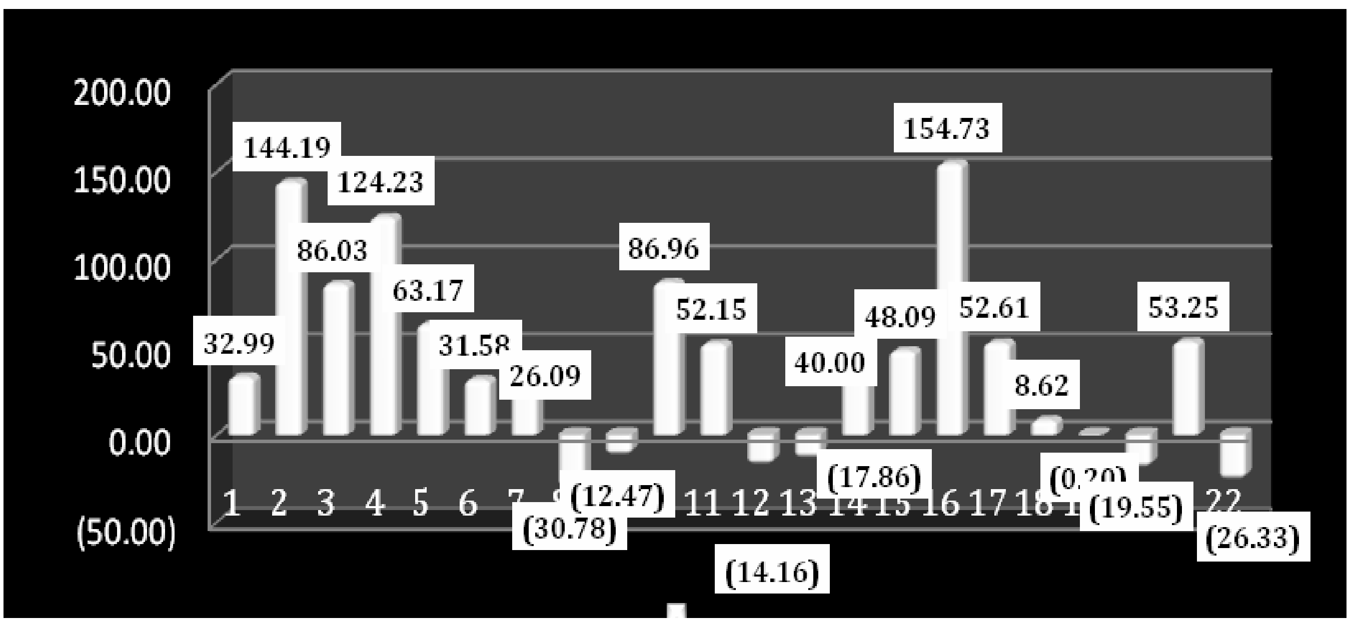


Chart 1 (B) : FDI - Changes in % (US Dollar)



at market rates whenever the pre-determined ceiling is breached for more than a specified period.

4. FOFI: FLOW OF FOREIGN INVESTMENT

The Flow of Foreign Investment (i.e. ***FOFI***) in any country needs ***'BHAGIRATH PRAYAS'***, especially in India, when Indian economy's gate were opened in the early 90s, in order to face financial crisis. Two key areas of foreign investment; Foreign Direct Investment & Portfolio Investment; are significant and have tremendous impact among other things, on Indian economy. Data (In Indian Rupee as well as US Dollar) of both, individually as well as collectively, are analyzed over the study period. The main reason behind this is that after FDI, PI also becomes centre of attraction for foreign investors but this doesn't mean that we are undermining other modes of investment.

Table 2

Year	(II) PORTFOLIO INVESTMENT					
	Rs. Crore	RELATIVE CHANGES		US $ Million	RELATIVE CHANGES	
		Rs. Crore	%		Rs. Crore	%
1990-91	11			6		
1991-92	10	-1	(9.09)	4	(2)	(33.33)
1992-93	748	738	7380.00	244	240	6000.00
1993-94	11188	10440	1395.72	3567	3323	1361.89
1994-95	12007	819	7.32	3824	257	7.20
1995-96	9192	-2815	(23.44)	2748	(1076)	(28.14)
1996-97	11758	2566	27.92	3312	564	20.52
1997-98	6794	-4964	(42.22)	1828	(1484)	(44.81)
1998-99	-257	-7051	(103.78)	(61)	(1889)	(103.34)
1999-00	13112	13369	(5201.95)	3026	3087	(5060.66)
2000-01	12609	-503	(3.84)	2760	(266)	(8.79)
2001-02	9639	-2970	(23.55)	2021	(739)	(26.78)
2002-03	4738	-4901	(50.85)	979	(1042)	(51.56)
2003-04	52279	47541	1003.40	11377	10398	1062.10
2004-05	41854	-10425	(19.94)	9315	(2062)	(18.12)
2005-06	55307	13453	32.14	12492	3177	34.11
2006-07	31713	-23594	(42.66)	7003	(5489)	(43.94)
2007-08	109741	78028	246.04	27271	20268	289.42
2008-09	-63618	-173359	(157.97)	(13855)	(41126)	(150.80)
2009-10	153516	217134	(341.31)	32376	46231	(333.68)
2010-11	143435	-10081	(6.57)	31471	(905)	(2.80)
2011-12	85126	-58309	(40.65)	18027	(13444)	(42.72)
2012-13	146559	61433	72.17	26953	8926	49.51
TOTAL	**847461**	**146548**	**4096.89**	**186688**	**26947**	**2875.30**
AVERAGE	**36846**	**6661**	**186.22**	**8117**	**1225**	**130.70**

Source : RBI.

Chart 2 (A) : PI - Changes in % (Indian Rupee)

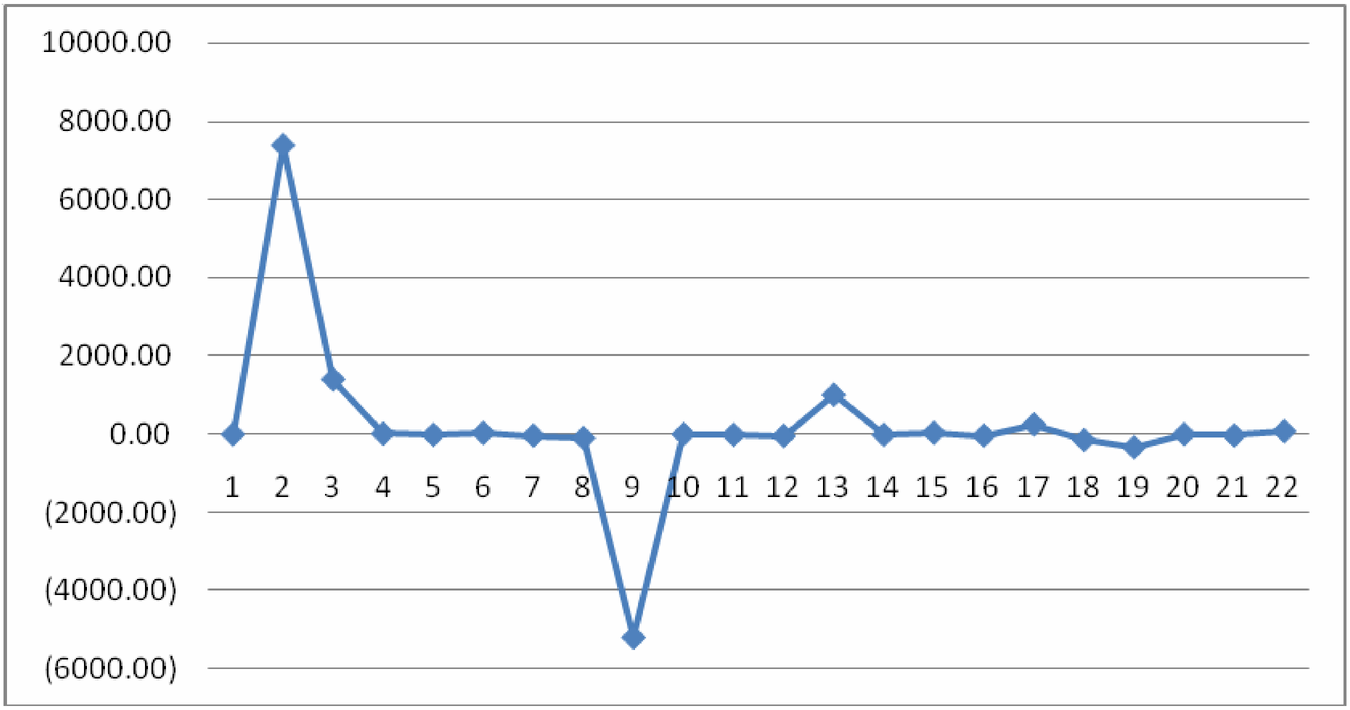
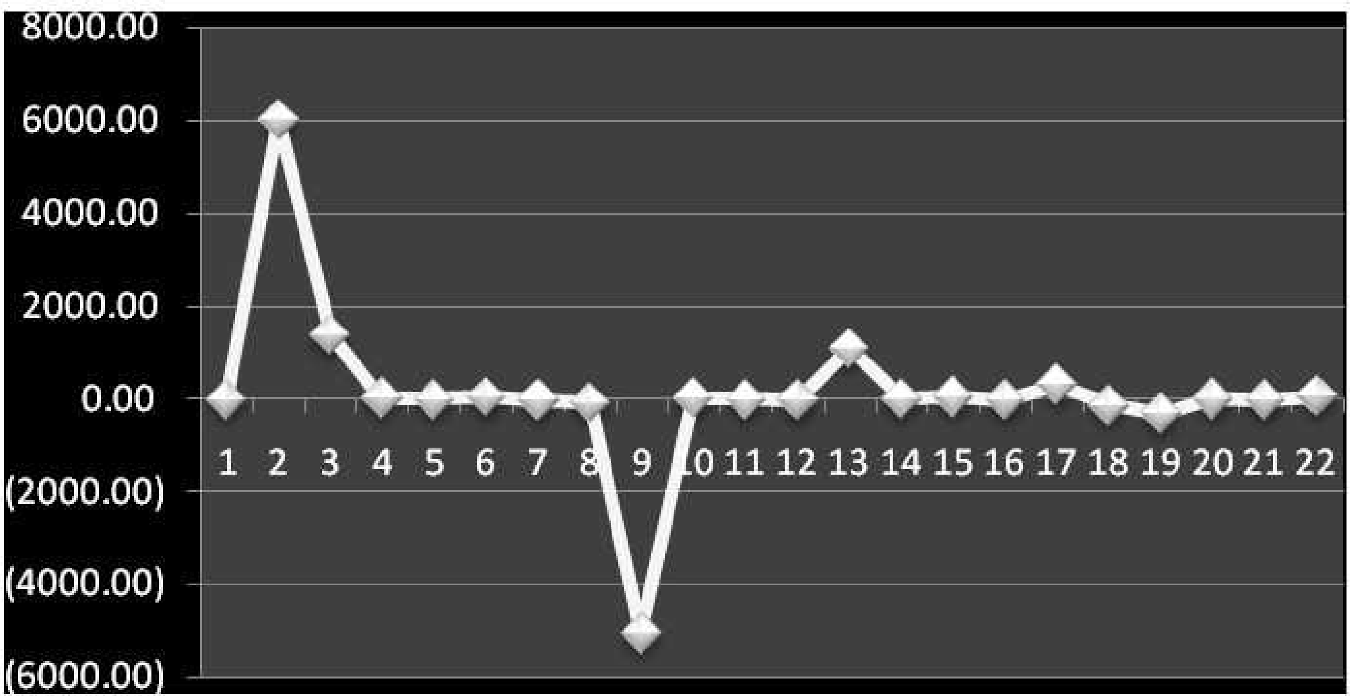


Chart 2 (B) : PI - Changes in % (US Dollar)



The Foreign Direct Investment position (year-wise) over the study period indicates that there is an overall increase of 48.35% & 40.15% respectively in terms of Indian Rupee & US Dollar. Also, the overall average FDI amounted to Rs. 59,018 crore & 12,809 US $ respectively. This is a positive sign for Indian economy on one hand but if we analyze the last five years' position of FDI, it shows altogether a different picture, where it dipped in three & two times in context of US Dollar & Indian Currency. Especially, year

2012-13 registered the second highest dip in terms of US dollar. Thus, it is a cause of worry for Indian Government and needs serious review of current policies in order to regain faith of foreign investors and pave the way to success of Indian Economy.

Likewise, the position of Portfolio management can be described as under, where over the study period its average increase amounted to Rs. 6,661 (crore) with a percentage of 186.22%. The US $ parameter also showed an upward trend of 1225 US Dollars

Table 3

Year	FDI + PI					
	Rs. Crore	RELATIVE CHANGES		US $ Million	RELATIVE CHANGES	
		Rs. Crore	%		Rs. Crore	%
1990-91	185			103		
1991-92	326	141	76.22	133	30	29.13
1992-93	1713	1387	425.46	559	426	320.30
1993-94	13026	11313	660.42	4153	3594	642.93
1994-95	16133	3107	23.85	5138	985	23.72
1995-96	16364	231	1.43	4892	(246)	(4.79)
1996-97	21773	5409	33.05	6133	1241	25.37
1997-98	20014	(1759)	(8.08)	5385	(748)	(12.20)
1998-99	10101	(9913)	(49.53)	2401	(2984)	(55.41)
1999-00	22450	12349	122.26	5181	2780	115.79
2000-01	31015	8565	38.15	6789	1608	31.04
2001-02	38874	7859	25.34	8151	1362	20.06
2002-03	29105	(9769)	(25.13)	6014	(2137)	(26.22)
2003-04	72139	43034	147.86	15699	9685	161.04
2004-05	69042	(3097)	(4.29)	15366	(333)	(2.12)
2005-06	94981	25939	37.57	21453	6087	39.61
2006-07	135080	40099	42.22	29829	8376	39.04
2007-08	249921	114841	85.02	62106	32277	108.21
2008-09	110123	(139798)	(55.94)	23983	(38123)	(61.38)
2009-10	332575	222452	202.00	70139	46156	192.45
2010-11	281897	(50678)	(15.24)	61851	(8288)	(11.82)
2011-12	304980	23083	8.19	64583	2732	4.42
2012-13	333057	28077	9.21	61251	(3332)	(5.16)
TOTAL	**2204874**	**332872**	**1780.03**	**481292**	**61148**	**1574.01**
AVERAGE	**95864**	**15131**	**80.91**	**20926**	**2779**	**71.55**

Source : RBI.

Chart 3 (A) : FDI & PI - Changes in % (Indian Rupee)

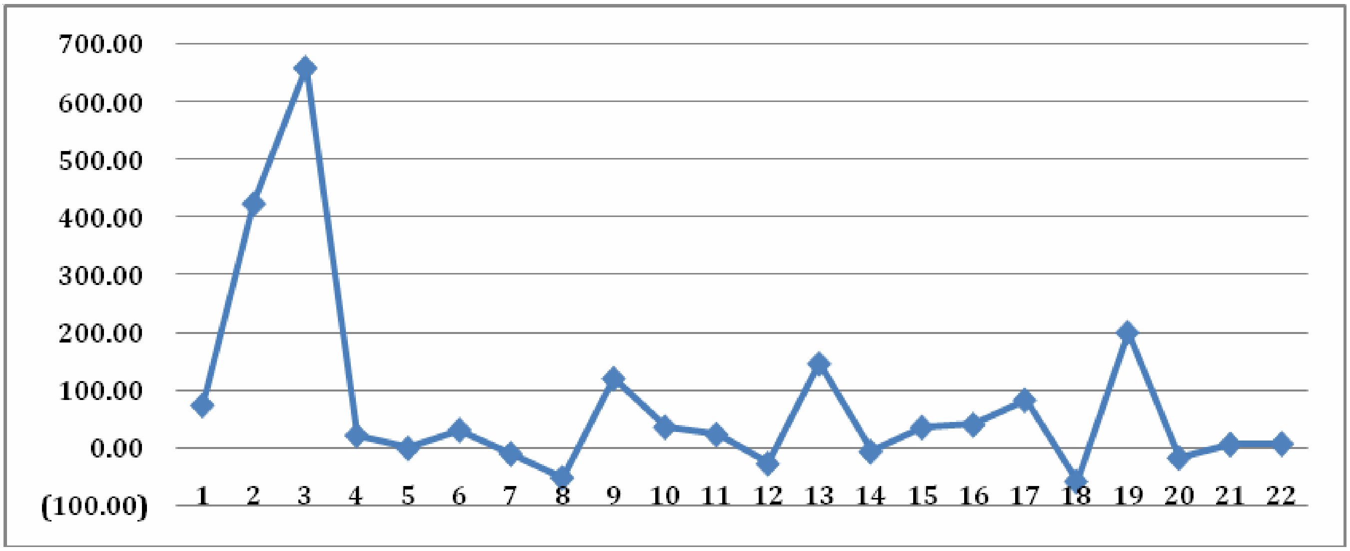
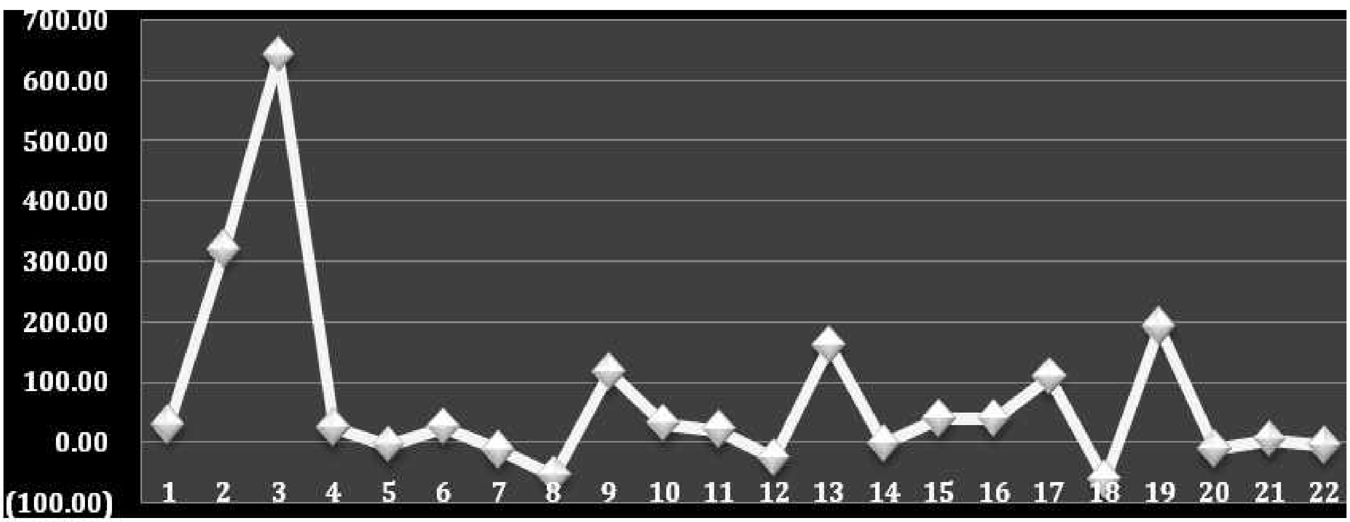


Chart 3 (B) : FDI & PI - Changes in % (US Dollar)



with an increased percentage of 130.70 %. It is important to note that in the last financial year of 20th century (i.e. 1999-2000) there was an unbelievable dip of 5201.95% & 5060.66% in PI, in comparison to highest ever increase of 7380% (Indian Rupee) & 6000% (US $) in the financial year 1992-93. Following table 2 portrays the ups and downs in PI's life over the study period .

After individual analysis, when collective performance of both (i.e. FDI & PI) is studied over the research period, FDI registered a growth of Rs. 15,131 crore (i.e. an average increase of 80.91%) which in terms of US $, stands at an average increase of 2,779 US $ with a rate of 71.55% over the study period.

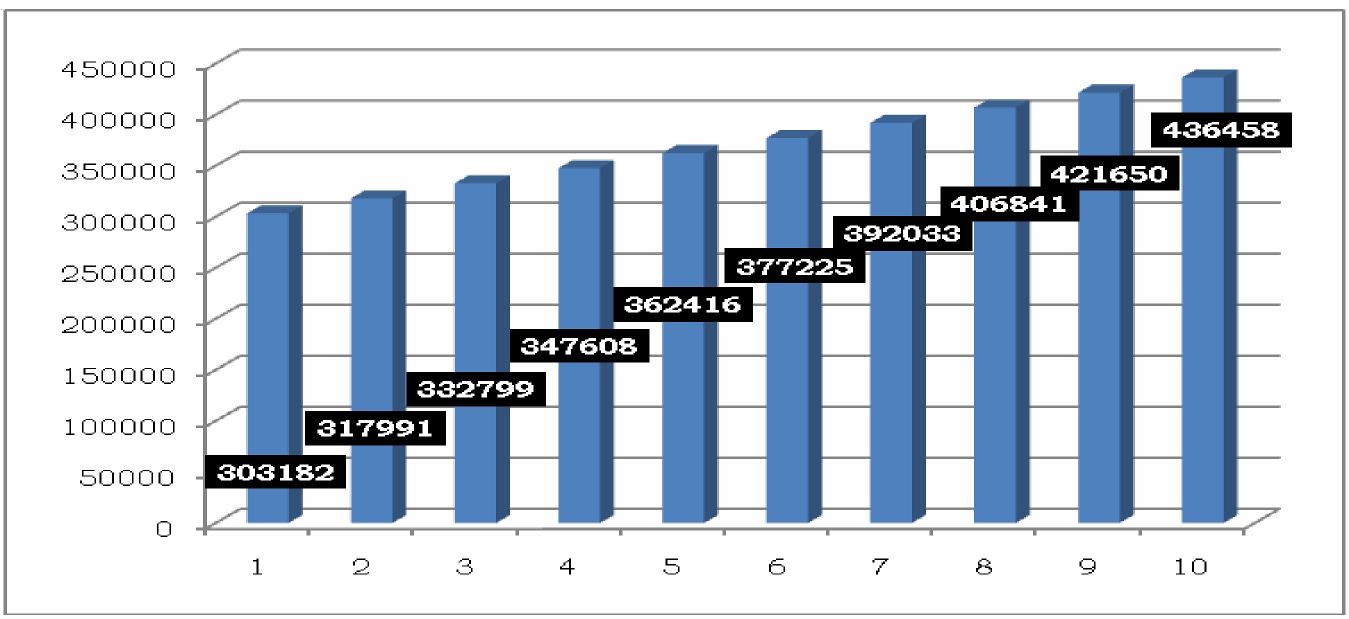
One thing which is quite interesting (when FDI's performance with PI's is compared) that in terms of Indian Currency FDI scored an average of Rs. 8,469 crore in comparison to Rs. 6,661 crore of PI but in terms of percentage PI's performance outmoded FDI. *In other words*, PI's average of 186.22% is more than three times higher than FDI's average of 48.35%..

Same thing occurred when FDI & PI are compared in terms of US$. FDI's average of 1555 is much ahead of PI's 1225, whereas PI scored more

Table 4 - Trend Values FDI & PI

YEAR	TREND VALUES (Rs. *Crore*)	TREND VALUES (US $)
2015-16	303182	64001
2016-17	317991	67078
2017-18	332799	70155
2018-19	347608	73232
2019-20	362416	76309
2020-21	377225	79385
2021-22	392033	82462
2022-23	406841	85539
2023-24	421650	88616
2024-25	436458	91693

Chart 4 (A)



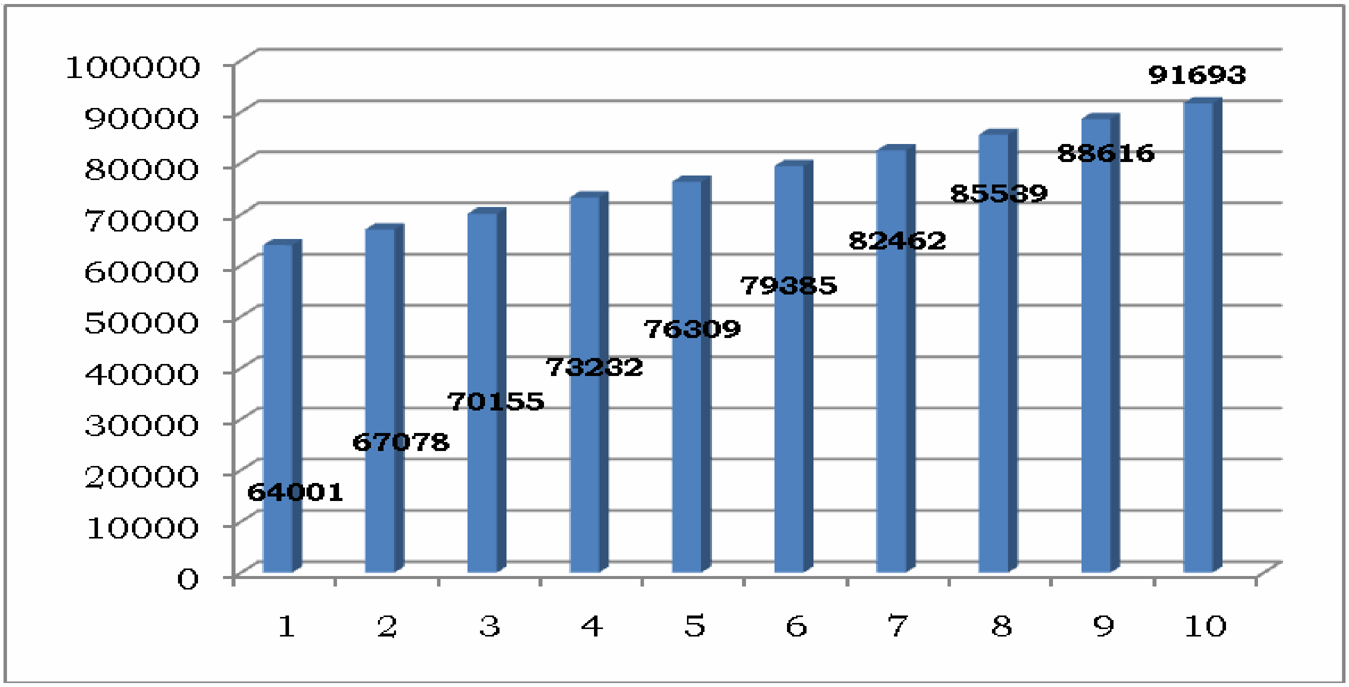
than three times of FDI's average in terms of percentage by registering 130.70% average in comparison to FDI's average of 40.15%.

5. FUTURE TREND

An old saying is ***"Future is uncertain"*** which in turn gives clear indication to one & all that **"Proper Planning"** is the one and only tool to face future's uncertainties with complete confidence. When one's dreams touch the heights as per expectations, it is nothing else but success of adequate planning.

Based on the above analysis, following table provide details about position of FDI & PI in the

Chart 4 (B)



next ten years (i.e. up to 2024-25) wherein a yearly growth of Rs. 14,808 crore (or say, US $ 3,077) is expected.

6. CONCLUSION

Foreign investment especially Foreign Direct Investment (***FDI***) has proved to be pliant during financial crises. The measures of it, flows and stocks of direct investment, are the only virtually omnipresent quantitative indicators of FDI. Foreign direct investment (FDI) influences the host country economic growth through the transfer of new technologies and know-how, formation of human resources integration in global markets, increase of competition, and firms' development and reorganization.

Increase in paperless transactions at a rapid rate saves money, time and energy of investors which in turn has made investing safer and hassle free. This has encouraged more & more people to join the capital market along with indirectly saving our '***mother earth***' which is becoming **'BAANJH'** due to unplanned enormous cutting of trees.

The trend analysis of direct investment in India shows that it is expected to increase by Rs. 9,423 crore per annum which for the first five years of study period (i.e. 1991-92 to 1994-95) remain negative but afterwards started coming to track and is expected to touch figure of Rs. 209,779 crores (2017-18). It also shows world's intention of investing more funds in times to come and faith in Indian Economy. This projection, of course, is subject to changes in the government policies, fluctuations in purchasing power of rupee, imposition or withdrawal of tax, levy, cess etc. pertaining to various ventures / items.

Similarly, the trend analysis of PI is also not an exception and seems to follow footsteps of direct investment in India by registering a growth of Rs. 5,386 crore per annum & is expected to cross Rs. 1.20 crore figure in 2017-18 (i.e. 123,021 crore).

Ultimately, the combined efforts of DI & PI produced an increasing trend of Rs. 14,808 crore per annum. After initial negative results for five years, it is expected to touch Rs. 436,458 crore by 2024-25, which is a good sign.

Thus, inspite of all ups and downs, the World is looking towards India (the second largest populated country) as secure and fruitful investment avenue. Things would definitely take better shape, if potholes in the path of progress are timely taken care of.

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