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Foreign Direct Investment Scenario in India

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Abstract:

Foreign Direct Investment (FDI) in India is a crucial factor for the economic growth. The pre economic liberalization period was challenge for the Indian economy to grow because there were many constraints to overcome. It has been more than twenty years since India embarked on a bold new policy on economic front. In these twenty three odd years there has been progress in both quantity and the way country attracted FDI. The purpose of this paper is to document the trends in FDI inflows to India for the years 2000-01 to 2013-14 by focusing on its flows and geographical distribution and to provide a comprehensive explanation of the underlying factors. However, to be specific the present study is based on the objectives like; 1) to analyze the year-wise FDI inflows in India; 2) to analyze the region-wise FDI inflows in India; 3) to analyze the sectoral distribution of FDI inflows and 4) to analyze the country-wise FDI inflows in India. After analyzing all the facts it may be concluded that maximum global foreign direct investment inflows have been attracted by Mumbai region (32 per cent). Further it has been found that Services sector has attracted highest FDI inflows (18.75 per cent) during the study period. The results also demonstrate that Mauritius is the country that has invested highly in India (37.29 per cent) followed by Singapore (10.84 *per cent), United Kingdom (9.44 per cent), Japan (7.29 per cent) and USA and so on. It also shows that there has been a tremendous increase in FDI inflow in India during the years of 2000-01 to 2013-14. Further this paper recommends that we should welcome the inflow of foreign investment because it enables us to achieve our cherished goal like making favorable the balance of payment, rapid economic development, removal of poverty, and internal personal disparity in the development.*

Key words: Foreign Direct Investment, Inflow, FDI Growth, India.

Introduction

Foreign direct investment (FDI) refers to cross-border investment made by a resident in one economy (the direct investor) with the objective of establishing a lasting interest in an enterprise (the direct investment enterprise) that is resident in a country other than that of the direct investor (OECD, 2013). The World Investment Report defines FDI as 'an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the FDI enterprise, affiliate enterprise or foreign affiliate (World Investment Report, 2013).

Foreign direct investment plays an important role in the economic development of the country. As most developing countries experience a shortage of capital, this is reflected in their respective savings-investment and import-export gaps, which implies that developing countries have insufficient savings and foreign exchange to finance their investment needs. To bridge this gap they need an inflow of foreign capital and exports growth (Chopra, 2004).

FDI is an important source of capital for growth in developing countries. It helps in transferring of financial resources, technology and innovative and improved management techniques along with raising productivity

(Amirahmadi, and Weiping, 1994). Foreign direct investment (FDI) plays a multidimensional role in the overall development of the host economies. It may generate benefits through bringing in non-debt-creating foreign capital resources, technological upgrading, skill enhancement, new employment, spill-overs and allocative efficiency effects (Mishra, and Mehta, 1967).

Capital formation is an important determinant of economic growth. While domestic investments add to the capital stock in an economy, foreign direct investment (FDI) plays a complementary role in overall capital formation by filling the gap between domestic savings and investment. At the macro-level, FDI is a non-debt-creating source of additional external finances. At the micro-level, FDI is expected to boost output, technology, skill levels, employment and linkages with other sectors and regions of the host economy (NCAER, 2009).

A much more important contribution of FDI, however, lies in raising the technological standards, levels of efficiency and the competitiveness of the host country. This can occur in several ways. FDI brings with it complementary assets such as technology, management and organizational competence and there are spillover effects of these assets on the rest of the economy (Banik, 2003). As the foreign-owned enterprise enters into competition with the local firms, the latter category of enterprises are forced to improve their technology and product quality. Further, the foreign owned enterprise pressurizes and assists the local related and support industries to improve the quality of their products and ensure greater reliability of delivery, both of which make it necessary for the related and support industries to upgrade their technology (Nagraj, 2003). Another benefit of FDI is that it helps the host country improve its export performance. By raising the level of efficiency and the standards of product quality, FDI makes a positive impact on the host country's export competitiveness (Kumar, 1998).

Further, because of the international linkages of transnational corporations (TNCs), FDI provides to the host country better access to foreign markets. Also, where the foreign investment has been made with the specific intention of sourcing parts/ components (or even final products) from the host country to take advantage of low cost conditions there (e g, low wages), FDI contributes to exports directly. It is needless to add here that enhanced export possibility contributes to the growth of the host economies by relaxing demand side constraints on growth. This is especially important for those countries which have a small domestic market and must increase exports vigorously to maintain their tempo of economic growth (Golder, and Ishigami. 1999).

Foreign direct investment (FDI) has played an important role in the process of globalization during the past decade. The rapid expansion in FDI by multinational enterprises since the mid-eighties may be attributed to significant changes in technologies, greater liberalization of trade and investment regimes, and deregulation and privatization of markets in many countries including developing countries like India (Kumar, 2005).

According to the current policy, FDI can come into India in two ways.

***Automatic route*:** FDI in sectors/activities to the extent permitted under the automatic route does not require any prior approval either by the government or the Reserve Bank of India (RBI). The investors are only required to notify the concerned regional office of the RBI within 30 days of receipt of inward remittances and file the required documents with that office within 30 days of issue of shares to foreign investors.

***Prior Government Approval route*:** In the limited category of sectors requiring prior government approval, the proposals are considered in a time-bound and transparent manner by the Foreign Investment Promotion Board (FIPB) under the Department of Economic Affairs, Ministry of Finance. Approvals of composite proposals involving foreign investment/

foreign technical collaboration are also granted on the recommendations of the FIPB (NCAER, 2009).

FDI have helped India to attain a financial stability and economic growth with the help of investments in different sectors. FDI has boosted the economic life of India and on the other hand there are critics who have blamed the government for ousting the domestic inflows. After liberalization of Trade policies in India, there has been a positive GDP growth rate in Indian economy (Bhalla, 1994). Foreign direct investments helps in developing the economy by generating employment to the unemployed, generating revenues in the form of tax and incomes, financial stability to the government, development of infrastructure, backward and forward linkages to the domestic firms for the requirements of raw materials, tools, business infrastructure and act as support for financial system. Forward and back ward linkages are developed to support the foreign firm with supply of raw material and other requirements. It helps in generation of employment and also helps poverty eradication (Vani, Nayak and Basu. 2007).

Objectives of the Study

The general objective of this paper is to provide an overview of Foreign Direct Investment (FDI) inflows in India for the years of April, 2000 to October, 2013. However, to be specific this paper aims at following objectives:

1. to analyze the year-wise FDI inflows in India;
2. to analyze the region-wise FDI inflows in India;
3. to analyze the sectorial distribution of FDI inflows and
4. to analyze the country-wise FDI inflows in India.

Database

This research paper is analytical and descriptive in nature. The present study is entirely based on secondary data. All the relevant data meant for the purpose have been taken from Secretariat for Industrial Assistance (SIA) Statistics, Department of Industrial Policy & Promotion, Ministry of Commerce and Industry, Government of India. The study is based on the time period from 2000-01 to 2013-14.

Methodology

The relevant data pertaining to our study have been analysed with the help of simple statistics like annual growth rate and simple percentage method. Data pertaining to year-wise Foreign Direct Investment (FDI) inflows have been analysed with Annual Growth Rate (AGR). Beside this, rest of the data has been analysed with simple percentage method.

Annual Growth Rate is defined as:

$$AGR = \frac{Y_c - Y_b}{Y_b} \times 100$$

Where Y_c = value of the current year

Y_b = value of the base year

Results and Discussion

Foreign Direct Investment (FDI) Inflows during the Calendar Year of 2013

Table-1 demonstrates the data pertaining to Foreign Direct Investment (FDI) inflows during the calendar year of 2013. The highest inflow of FDI has been observed during the month of September ($2,915 million). As contrary to this, least FDI inflow has been observed in the month of October ($1,126 million). Apart from these two extremes, other months of the calendar year evinced a mild picture of fluctuation in FDI inflows.

Table-1: FDI Inflows (Month-wise) During the Calendar Year 2013

Months	**Amount of FDI Inflows**	
	(In Rs. Crore)	***(In US$ million*)***
January	11,719	2,157
February	9,654	1,795
March	8,297	1,525
April	12,623	2,321
May	8,974	1,631
June	8,432	1,444
July	9,903	1,657
August	8,899	1,408
September	18,585	2,915
October	7,556	1,226
Year 2013 (up to October)#	**104,642**	**18,079**
Year 2012 (up to October 2012)#	**109,781**	**20.631**
Percentage Growth Over Last Year	**(-) 5 %**	**(-) 12 %**

Source: Compiled and Computed from SIA Statistics, Ministry of Commerce and Industry, Government of India.
Note: # Figures are provisional, subject to reconciliation with RBI, Mumbai.
Note: 1 million*=10 Lakh

In 2013 (up to October), the total FDI inflows was $18,097 million, whereas in 2012 it was $20,631 million. During the calendar year of 2013, there has been observed a decline of (-12 percent) in total FDI inflows in US$ terms, whereas in rupee terms it has been found in tune of (-5 per cent). The difference in decline has been found primarily owing to the volatility in the foreign exchange rates of rupee during the calendar year. Fig 1.1 demonstrates the fluctuation in FDI inflows in India during the calendar year of 2013.

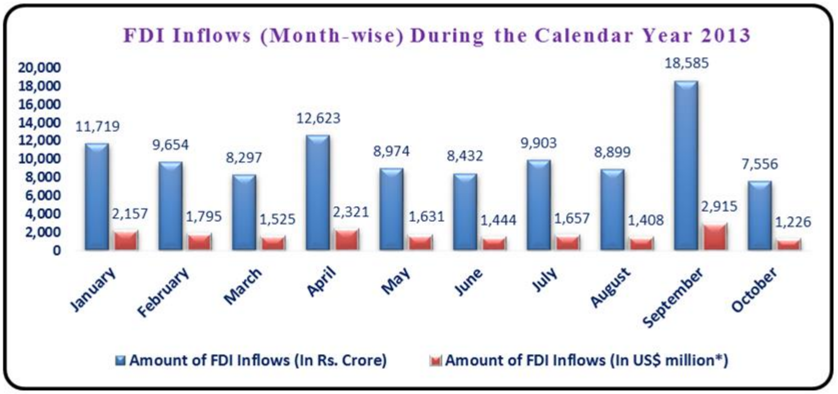

Fig.1.1

Year-wise Foreign Direct Investment (FDI) inflows in India

Table-2 provides the information about year-wise FDI inflows for the years 2000-01 to 2013-14. It is clear from the table that during the period of 14 years, highest FDI inflows have been observed during the year of 2011-12 ($46,556 million). Conversely, a minimum gamut of FDI inflows has been found in the year of 2000-01 ($4,029 million). During the whole study period, year on year fluctuation has been experienced in total FDI inflows. The total cumulative FDI inflows (from April, 2000-01 to October, 2013) have been to the tune of ($309,012 million). In India's total FDI inflows, equity inflow constitute the largest part (mainly through RBI's automatic route). During 2000-01 to 2013-14, the cumulative FDI inflows in terms of equity inflow were of the order of $217.908 million (mainly through RBI's automatic route $207,569 million) followed by re-invested earnings ($78,264 million) and other capital ($ 12,840 million). Further highest annual growth rate in FDI inflows have been observed during the year of 2006-07 (+ 146 per cent) followed by the year of 2007-08 (+ 53 per cent) and 2001-02 (+ 52 per cent). During the study period of 14 years, least positive annual growth rate has been found for the year of 2008-09 (+ 20 per cent). Conversely, highest negative annual growth rate in FDI inflows have been found for the year of 2013-14 (- 49 per cent) and least has been found for the year of 2010-11 (-8 per cent).

Table-2 Year-Wise FDI Inflows (April, 2000 to October, 2013) (*Amount US$ million*)

Financial Year (April-March)	Foreign Direct Investment (FDI)					
	(1) Equity		(2) Re-invested Earnings	(3) Other capital	Total FDI Flows (1+2+3)	Annual Growth Rate (in US$ terms)
	RBI's Automatic Route	*Equity Capital of Unincorporated Bodies*				
2000-01	2,339	61	1,350	279	**4,029**	-
2001-02	3,904	191	1,645	390	**6,130**	**(+) 52 %**
2002-03	2,574	190	1,833	438	**5,035**	**(-) 18 %**
2003-04	2,197	32	1,460	633	**4,322**	**(-) 14 %**
2004-05	3,250	528	1,904	369	**6,051**	**(+) 40 %**
2005-06	5,540	435	2,760	226	**8,961**	**(+) 48 %**
2006-07	15,585	896	5,828	517	**22,826**	**(+) 146 %**
2007-08	24,573	2,291	7,679	300	**34,843**	**(+) 53 %**
2008-09	31,364	702	9,030	777	**41,873**	**(+) 20 %**
2009-10(P)+	25,606	1,540	8,668	1,931	**37,745**	**(-) 10 %**
2010-11(P)+	21,376	874	11,939	658	**34,847**	**(-) 08 %**
2011-12(P)	34,833	1,022	8,206	2,495	**46,556**	**(+) 34 %**
2012-13(P)	21,825	1,059	11,025	2,951	**36,860**	**(-) 21%**
2013-14(P)	12,603	518	4,937	876	**18,934**	**(-) 49 %**
Cumulative Total (from April, 2000 to October 2013)	**207,569**	**10,339**	**78,264**	**12,840**	**309,012**	_

Source: Compiled and Computed from SIA Statistics, Ministry of Commerce and Industry, Government of India.
Note:(P) All figures are provisional "+" Data in respect of 'Re-invested earnings' & 'Other capital' for the years 2009-10, 2010-11, 2012-13 & 2013-14 are estimated as average of previous two years.

Regional Distribution of Foreign Direct Investment (FDI) inflows in India

Table-3 provides the data pertaining to region-wise FDI inflows in India for the years of April, 2000 to October 2013. It is evident from the table that region-wise, Mumbai is the largest recipient of FDI in terms of cumulative FDI inflows from April, 2000 to October, 2013 to the tune of $65,345 million

(32 percent) followed by New Delhi region $38,149 million (19 per cent) and Chennai region $12,263 million (6 per cent). These states are either known for their strong industrial base (like Gujarat) or as software hubs (like Karnataka and Delhi). This could also be attributed to their better resources, infrastructure like roads and power, investor friendly policies and investment promotion schemes. However, the competition among the states to promote their own state in attracting FDI has led to an increasing trend in FDI in other states.

Table-3: Region-wise Foreign Direct Investment (FDI) Inflows (April, 2000 to October, 2013) Amount Rupees in Crore (US$ in million)

Regions	**State Covered**	**Years**				
		2011-12 (April-March)	**2012-13 (April-March)**	**2013-14 (April-Oct.)**	**Cumulative Inflows(April 2000 to Oct.2013)**	**Percentage to total inflows (in terms of US$)**
Mumbai	Maharashtra Dadra & Nagar Haveli, Daman& Diu	44,664 **(9,553)**	47,359 **(8,716)**	11,828 **(2,008)**	305,322 **(65,345)**	**32**
New Delhi	Delhi, Part of UP and Haryana	37,403 **(7,983)**	17,490 **(3,222)**	11,203 **(1,856)**	179,785 **(38,149)**	**19**
Chennai	Tamil Nadu and Pondicherry	6,711 **(1,422)**	15,252 **(2,807)**	6,800 **(1,182)**	59,611 **(12,263)**	**6**
Bangalore	Karnataka	7,235 **(1,533)**	5,553 **(1,023)**	5,063 **(867)**	54,508 **(11,652)**	**6**
Ahmadabad	Gujarat	4,730 **(1,001)**	2,676 **(493)**	2,697 **(445)**	41,797 **(9,095)**	**4**

Hyderabad	Andhra Pradesh	4,039 **(848)**	6,290 **(1,159)**	2,710 **(463)**	39,601 **(8,432)**	**4**
Kolkata	West Bengal, Sikkim, Andaman &Nicobar Island	1,817 **(394)**	2,319 **(424)**	951 **(161)**	11,455 **(2,467)**	**1**
Chandigarh	Punjab, Haryana and H.P.	624 **(130)**	255 **(47)**	198 **(33)**	5,762 **(1,234)**	**1**
Region not Indicated		57,924 **(12,257)**	24,712 **(4,533)**	33,522 **(5,586)**	273,509 **(57,250)**	**27**
Grand Total		165,146 **(35121)**	121,907 **(22,423)**	74,971 **(12,603)**	971,883 **(206,005)**	**100**

Source: Compiled and Computed from SIA Statistics, Ministry of Commerce and Industry, Government of India.

Sectoral Distribution of Foreign Direct Investment (FDI) inflows in India

Table-4 exhibits the data pertaining to sector-wise break-up of FDI inflows in India (April, 2000 to October 2013). It can be seen that Services sector has registered top berth in attracting FDI with $38,594.96 million (18.75 per cent) during this period. In this respect, Construction Development followed the Services sector with $22,779.24 million (11.06 per cent) so on followed by Telecommunication with $12,888.58 (6.26 per cent), Computer Software and Hardware $12,178.83 million (5.92 per cent) and Drugs and Pharmaceuticals $11,399.98 million (5.54 per cent). In the total FDI inflows, miscellaneous sector's part was of the order of $33,253.58 million (16.15 per cent) during the entire study period. There were some other sectors that have attracted FDI in tune of less than 2 per cent of the total FDI inflows, among them are Food Processing Industries (1.92 per cent), Information and Broadcasting (1.77 per cent) Electrical Equipments (1.59 per cent) and cement and Gypsum product (1.40 per cent). During the entire period of April, 2000 to October, 2013 the cumulative FDI inflows in India were of the order of 971,883.29 (in rupee crore) and 206,005.78 (in US$ million). This could be attributed to India's strong fundamentals which include a large and growing market;

world-class scientific, technical and managerial manpower, cost-effective and highly skilled labor; an abundance of natural resources; a large English-speaking population; and an independent judiciary.

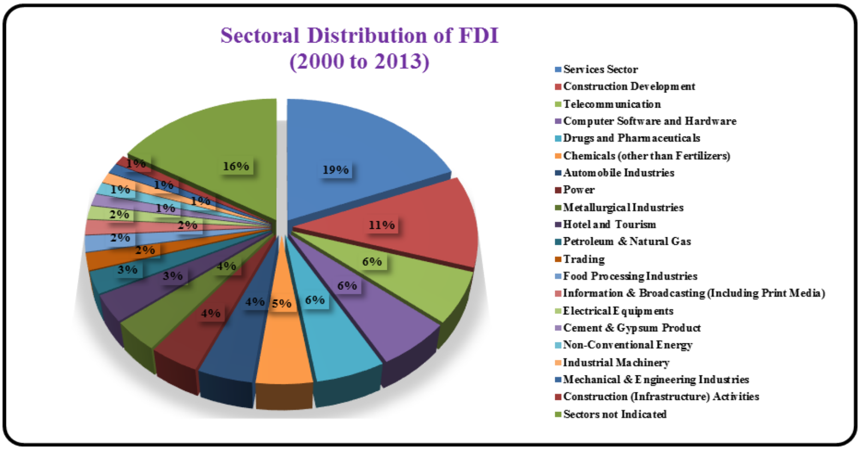

Fig. 1.2

Table-4 Sectoral distribution of FDI (2000 to 2013)

Sectors	Amount of FDI inflows		Percentage with Total FDI Inflows (in terms of US$)
	(in Rupees Crore)	*(in US$ million)*	
Services Sector	180,194.83	38,594.96	**18.75**
Construction Development	105,292.85	22,779.24	**11.06**
Telecommunication	58,929.38	12,888.58	**6.26**
Computer Software and Hardware	55,708.58	12.178.83	**5.92**
Drugs and Pharmaceuticals	54,835.77	11,399.98	**5.54**
Chemicals (other than Fertilizers)	43,055.84	9,314.11	**4.52**
Automobile Industries	43,664.98	9,079.19	**4.41**
Power	38,026.65	8,154.59	**3.96**
Metallurgical Industries	36,251.87	7,752.10	**3.77**
Hotel and Tourism	34,242.73	6,800.15	**3.30**
Petroleum & Natural Gas	25,422.46	5,483.34	**2.66**
Trading	20,146.32	4,209.39	**2.04**
Food Processing Industries	19198.18	3,957.19	**1.92**
Information & Broadcasting (Including Print Media)	17,588.29	3,638.22	**1.77**
Electrical Equipments	15,207.61	3,273.16	**1.59**

Cement & Gypsum Product	13,358.36	2,878.52	**1.40**
Non-Conventional Energy	14,419.07	2,847.21	**1.38**
Industrial Machinery	12,702.38	2,584.47	**1.26**
Mechanical & Engineering Industries	11,544	2,495.50	**1.21**
Construction (Infrastructure) Activities	11,106.26	2,322.13	**1.13**
Sectors not Indicated	**149,688.54**	**33,253.58**	**16.15**
Grand Total	**971,883.29**	**206,005.78**	**100**

Source: Compiled and Computed from SIA Statistics, Ministry of Commerce and Industry, Government of India.

This is now recognized by a number of global investors who have either already established a base in India or are in the process of doing so. Ongoing initiatives, such as further simplification of rules and regulations and improvement in infrastructure, are expected to provide the necessary impetus to increase FDI inflows in future. There is no doubt that there is renewed optimism about India as an emerging investment destination. Top twenty FDI recipient sectors in India are shown in Figures 1.2.

Country-wise Foreign Direct Investment (FDI) Inflows in India

Table-5 provides the information about top-ten investing countries in India during the period of April, 2000 to October, 2013. Among the countries heading the list of FDI inflows to India is Mauritius with $76,764.64 million (37.29 percent).

Table-5 Top –Ten Investing Countries in India (April, 2000 to October, 2013)

Countries	**Amount of Foreign Direct Investment Inflows**		**Percentage with Total FDI Inflow (in terms of US$)**
	(In Rs. Crore)	***(In US$ million)***	
Mauritius	359,577.66	76,764.64	**37.29**
Singapore	106,644.28	22,325.03	**10.84**
United Kingdom	92,475.05	19,441.82	**9.44**
Japan	72,850.52	15,010.70	**7.29**
U.S.A.	54,047.59	11,656.28	**5.66**
Netherlands	48,914.11	10,049.94	**4.88**
Cyprus	34,249.81	7,206.72	**3.50**
Germany	28,970.52	6,094.16	**2.96**
France	17,885.11	3,746.12	**1.82**
UAE	12,490.52	2,616.43	**1.27**
Countries not Indicated	143,328.12	31,093.94	**15.05**
Total	**971,883.29**	**206,005.78**	**100**

Source: Compiled and Computed from SIA Statistics, Ministry of Commerce and Industry, Government of India.

This could be attributed to the Double taxation treaty that India has signed with Mauritius and also to the fact that most US investment into India is being routed through Mauritius. Further it can be observed that Singapore stood second next to Mauritius with $22,325.03 million (10.84 per cent) followed by United Kingdom with $19,441.82 million (9.44 per cent) Japan with $15,010.70 million (7.29 per cent) and U.S.A with $11,656.28 million (5.66 per cent) which are also India's major trading partners. Cyprus with $7,206.72 (3.50 per cent) and U.A.E. with $2,616.43 million (1.27 per cent) have entered in the list of top-ten investing countries during the recent cumulative period. Fig. 1.3 exhibits the top-ten investing countries in India during the years of 2000 to 2013.

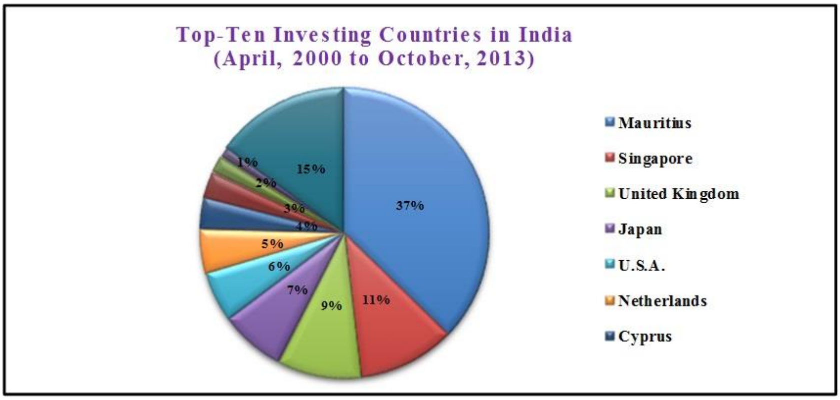

Fig. 1.3

Conclusions:

In the foregoing, we have summarized the emerging pattern and trends in inflows of FDI in India in the wake of policy reforms initiated since 1991. While the magnitudes of inflows have recorded impressive growth, they are still at a small level compared to the country's potential. The policy reforms have enabled the country to widen the sectoral as well as the source country composition of FDI inflows. Further, during the calendar year of 2013, there has been observed a decline of (-12 percent) in total FDI inflows in US$ terms, whereas in rupee terms it has been found in tune of (-5 per cent). The difference in decline has been found primarily owing to the volatility in the foreign exchange rates of rupee during the calendar year. It is also clear from the foregoing analysis that during the period of 14 years, highest FDI inflows have been observed during the year of 2011-12 ($46,556 million). Conversely, a minimum gamut of FDI inflows has been found in the year of 2000-01 ($4,029 million). In India's total FDI inflows, equity inflow constitute the largest part (mainly through RBI's automatic route). Further highest annual growth rate in FDI inflows have been observed during the year of 2006-07. During the study period of 14 years, least positive annual growth rate has been found for the year of 2008-09 (+ 20 per cent). Conversely, highest negative annual growth rate in FDI inflows have been found for the year of 2013-14 (- 49 per cent). Region -wise FDI inflows, Mumbai region is the largest recipient in terms of cumulative FDI inflows from April, 2000 to October, 2013 to the tune of $65,345 million (32 percent). Sector-wise, Services sector has registered top berth in attracting FDI with $38,594.96 million (18.75 per cent) during this period. Among the countries heading the list of FDI inflows to India is Mauritius with $76,764.64 million (37.29 percent). This could be attributed to the Double taxation treaty that India has signed with Mauritius and also to the fact that most US investment into India is being routed through Mauritius. This paper recommends that we should welcome the inflow of foreign investment because it enables us to achieve our cherished goal like making favorable the balance of payment, rapid economic development, removal of poverty, and internal personal disparity in the development. Further, it is suggested that foreign direct investment can be increased by way of streamlining the policies pertaining to FDI, industrial labour market reforms and infrastructure development.

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