

RECENT TRENDS OF FOREIGN DIRECT INVESTMENT IN INDIA

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Introduction:-

India is considered as one of the fastest emerging economies in the modern world with a ceaseless economical growth. The country has accepted liberalization, privatization, and globalization policies to develop its economical condition and for being progressive country in ever widening the scope of economical growth. It intends to be the integration of international capital markets, global foreign direct investment flows. From last two decades it may seem to argue that foreign direct investment can convey about vast advantages to host countries According to policy makers foreign direct investment will be working positively in developing country. Foreign direct investment may surely a kind of source of valuable technical knowledge and may be sufficient linkages with local firms which can cooperate to increase economical growth. The term foreign direct investment (FDI) refers to private capital provided by the foreign entities for the purpose of acquiring control over production capabilities in the resident economy. This distinguished FDI from foreign portfolio investments, where the investor does not acquire control. FDI is also different from foreign capital provided on a non-business basis through public bilateral or multilateral development sources. FDI is either directed towards the creation of new production facilities (Greenfield investments), or towards the acquisition of existing production facilities (mergers and acquisitions). As far as the form is concerned, FDI is undertaken either through equity capital (direct purchase of stocks and other forms of equity), reinvested earnings or inter-company debt transactions (the lending of money from the foreign parent to the resident subsidiary).

Role of FDI

The vital role played by FDI in the growth dynamics of developing countries has created considerable research interest among development economists. Availability of skilled workers can significantly boost the international competitiveness of a host in country, which plays a key role in attracting FDI. The primary object of Multinational Corporation is to serve the domestic market. It has been observed that this type of FDI does not generally flow to poor country where customers do not have adequate purchasing power . At the beginning

the average income in the sample countries during the period was not high. But it is possible that some FDI flowing particularly to the middle income countries in the sample is increasing. Multinational corporations are frequently attracted to developing nations by the abundance of their cheap labor. Higher level of human capital is a good indicator of the availability of skilled workers which along with cheap workers can significantly boost the location advantages of a host country. Availability of infrastructure such as roads highways, communication networks electricity should increase productivity and thereby attract higher level of FDI.

FDI in India:-

Until 1991, inflows of private capital from abroad were negligible and these averaged to less than \$200 million a year during the period 1985-90 (Gandhi, 2002). The situation was considered to be better when compared to that during the 1960s and 1970s when there were negative net flows of foreign capital caused by factors such as nationalization of foreign oil companies and the consequent closure or sell-out of foreign companies. The unprecedented balance of payments crisis that engulfed the external sector of the economy and the consequent downgrading of India's credit rating in July 1991 forced the government of India to initiate far-reaching economic reforms to ease up on regulation and liberalize the economy. Foreign investment which had till then been viewed with mistrust and suspicion was overnight welcomed, in fact, wooed. The flow of FDI into India picked up momentum three years after the 1991 liberalization and it became a significant component of total foreign investment inflow. In the beginning, impetus was given to portfolio investment. There was a spurt in inflows as the Indian corporate sector used the Global Depository Receipts (GDR) route to raise funds overseas.

FDI Recent Trend in India

Total Foreign Direct Investment Flow in India is displayed in following table since the year 2000

Table 1 : Cumulative FDI inflow in India

FDI Inflows (Equity Inflows + Re-invested earnings + Other) (From April 2000 to July 2014)	US \$ 3,38, 522 million
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Source: Reserve Bank of India, Fact sheet on FDI

Mauritius is the largest contributor in foreign direct investment with 36 percent contribution to India, followed by Singapore at second position at 12 percent and United Kingdom at the third position with 10 percent. The following table highlights the inflow of foreign direct investment in India since 2012-13 to 2014-15 from these countries reflected in following table.

Table 2 : SHARE OF TOP INVESTING COUNTRIES FDI EQUITY INFLOWS (Financial years):

Amount Rupees in crores (US\$ in million)

Ranks	Country	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>Cumulative</u>	<u>%age to total</u>
		(April - March)	(April - March)	(April-July, 2014)	Inflows (April-July '1)	Inflows (in terms of US \$)
1.	MAURITIUS	51,654 (9,497)	29,360 (4,859)	20,206 (3,386)	390,691 (81,911)	36 %
2.	SINGAPORE	12,594 (2,308)	35,625 (5,985)	9,978 (1,669)	135,785 (27,115)	12 %
3.	U.K.	5,797 (1,080)	20,426 (3,215)	4,911 (824)	105,796 (21,588)	10 %
4.	JAPAN	12,243 (2,237)	10,550 (1,718)	4,995 (834)	85,639 (17,102)	8 %
5.	NETHERLANDS	10,054 (1,856)	13,920 (2,270)	8,958 (1,492)	65,256 (12,728)	6 %
6.	U.S.A.	3,033 (557)	4,807 (806)	2,106 (351)	57,836 (12,279)	5 %
7.	CYPRUS	2,658 (490)	3,401 (557)	1,620 (271)	37,349 (7,717)	3 %

8.	GERMANY	4,684 (860)	6,093 (1,038)	1,881 (314)	33,487 (6,833)	3 %
9	FRANCE	3,487 (646)	1,842 (305)	692 (116)	19,399 (3,994)	2 %
10.	SWITZERLAND	987 (180)	2,084 (341)	653 (109)	13,801 (2,817)	1 %
TOTAL FDI INFLOWS FROM ALL COUNTRIES *		121,907 (22,423)	147,518 (24,299)	64,193 (10,736)	1,108,624 (228,438)	-

**Includes inflows under NRI Schemes of RBI.*

Note: (i) Cumulative country-wise FDI equity inflows (from April, 2000 to July, 2014) are at –Annex-A’.

(ii) %age worked out in US\$ terms & FDI inflows received throu existing shares only.

Service sector received highest foreign direct investment with 18 % of total inflows, followed by Construction sector with 10% of total inflows. The following table projects the sector-wise segregation of list of sectors that received FDI from the year 2000 to 2014

Table 3: SECTORS ATTRACTING HIGHEST FDI EQUITY INFLOWS:

Amount in Rs. crores (US\$ in million)

<i>Ranks</i>	<i>Sector</i>	<u>2012-13</u> (April - March)	<u>2013-14</u> (April- March)	<u>2014-15</u> (April- July, 2014)	<u>Cumulative</u> <u>Inflows</u> (April- July '1	<i>% age to</i> <i>total</i> <i>Inflows</i> (In terms of US\$)
1.	SERVICES SECTOR **	26,306 (4,833)	13,294 (2,225)	6,182 (1,031)	191,752 (40,491)	18 %
2.	CONSTRUCTION DEVELOPMENT: TOWNSHIPS, HOUSING, BUILT-UP INFRASTRUCTURE	7,248 (1,332)	7,508 (1,226)	2,570 (430)	111,128 (23,736)	10 %
3.	TELECOMMUNICATIONS (radio paging, cellular mobile, basic telephone services)	1,654 (304)	7,987 (1,307)	13,889 (2,334)	80,608 (16,497)	7 %
4.	COMPUTER SOFTWARE & HARDWARE	2,656 (486)	6,896 (1,126)	2,037 (340)	61,707 (13,157)	6 %
5.	DRUGS & PHARMACEUTICALS	6,011 (1,123)	7,191 (1,279)	5,270 (886)	61,340 (12,484)	6 %

6.	AUTOMOBILE INDUSTRY	8,384 (1,537)	9,027 (1,517)	1,482 (247)	49,678 (10,060)	4 %
7.	CHEMICALS (OTHER THAN FERTILIZERS)	1,596 (292)	4,738 (878)	2,305 (384)	47,539 (10,052)	4 %
8.	POWER	2,923 (536)	6,519 (1,066)	2,012 (337)	44,667 (9,237)	4 %
9.	METALLURGICAL INDUSTRIES	7,878 (1,466)	3,436 (568)	976 (163)	39,225 (8,237)	4 %
10	HOTEL & TOURISM	17,777 (3,259)	2,949 (486)	1,822 (305)	38,030 (7,422)	3 %

Note: (i)** *Services sector includes Financial, Banking, Insurance, Non-Financial / Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis*

(ii) *Cumulative Sector- wise FDI equity inflows (from April, 2000 to July, 2014) are at - Annex- 'B'.*

(iii) *FDI Sectoral data has been revalidated / reconciled in line with the RBI, which reflects minor changes in the FDI figures (increase/decrease) as compared to the earlier published sectoral data.*

The following table also highlights the State wise Segregation of FDI investments, which reflects that only few regions in the country is receiving a heavy flow of foreign investment further widening the regional imbalance

in the country, which requires policy reforms that would facilitate growth in rural parts of the country to make growth more inclusive.

Table 4 : STATEMENT ON RBI'S REGIONAL OFFICES (WITH STATE EQUITY INFLOWS)

to July,
(from April, 2000 2014):

*Amount Rupees in crores (US\$
in million)*

S. No.	RBI's-Regional Office ²	State covered	<u>2012-13</u> (April - March)	<u>2013-14</u> (April - March)	<u>2014-15</u> (April- July, 2014)	<u>Cumulative</u> <u>Inflows</u> (April- July '1	<u>%age to</u> <u>total</u> <u>Inflows</u> (in terms of US\$)
1	MUMBAI	MAHARASHTRA, DADRA & NAGAR HAVELI, DAMAN & DIU	47,359 (8,716)	20,595 (3,420)	14,077 (2,351)	328,166 (69,108)	30
2	NEW DELHI	DELHI, PART OF UP AND HARYANA	17,490 (3,222)	38,190 (6,242)	9,503 (1,587)	216,274 (44,123)	19
3	CHENNAI	TAMIL NADU, PONDICHERRY	15,252 (2,807)	12,595 (2,116)	5,612 (938)	71,017 (14,135)	6
4	BANGALORE	KARNATAKA	5,553 (1,023)	11,422 (1,892)	2,427 (405)	63,294 (13,081)	6
5	AHMEDABAD	GUJARAT	2,676 (493)	5,282 (860)	1,246 (209)	45,627 (9,719)	4
6	HYDERABAD	ANDHRA PRADESH	6,290 (1,159)	4,024 (678)	4,245 (709)	45,160 (9,355)	4
7	KOLKATA	WEST BENGAL, SIKKIM, ANDAMAN & NICOBAR ISLANDS	2,319 (424)	2,659 (436)	421 (70)	13,584 (2,812)	1

8	CHANDIGARH	CHANDIGARH, PUNJAB, HARYANA, HIMACHAL PRADESH	255 (47)	562 (91)	100 (17)	6,227 (1,309)	0.6
9	JAIPUR	RAJASTHAN	714 (132)	233 (38)	3,065 (513)	6,623 (1,236)	0.5
10.	BHOPAL	MADHYA PRADESH, CHATTISGARH	1,208 (220)	708 (119)	600 (100)	6,095 (1,215)	0.5
11	KOCHI	KERALA, LAKSHADWEEP	390 (72)	411 (70)	161 (27)	4,893 (1,008)	0.4
12	PANAJI	GOA	47 (9)	103 (17)	53 (9)	3,710 (797)	0.4
13	KANPUR	UTTAR PRADESH, UTTRANCHAL	167 (31)	150 (25)	200 (33)	1,965 (406)	0.2
14	BHUBANESHWAR	ORISSA	285 (52)	288 (48)	20 (3)	1,926 (392)	0.2
15	GUWAHATI	ASSAM, ARUNACHAL PRADESH, MANIPUR, MEGHALAYA, MIZORAM, NAGALAND, TRIPURA	27 (5)	4 (0.6)	0 (0)	352 (79)	0
16	PATNA	BIHAR, JHARKHAND	41 (8)	9 (1)	48 (8)	247 (47)	0
17	JAMMU	JAMMU & KASHMIR	0 (0)	1 (0.2)	25 (4)	26 (4)	0
18	REGION NOT INDICATED ³		21,833 (4,004)	50,283 (8,245)	22,390 (3,752)	292,906 (58,442)	26.06
SUB. TOTAL			121,907	147,518	64,193	1,108,091	100.00

		(22,424)	(24,299)	(10,736)	(228,317)	
19	RBI'S-NRISCHEMES (from 2000 to 2002)	0	0	0	533 (121)	
GRAND TOTAL		121,907 (22,424)	147,518 (24,299)	64,193 (10,736)	1,108,624 (228,438)	

Conclusion:

It can be concluded that the foreign direct investment is acting as catalyst for the economic development for India in general but it polarized in particular sectors and states. However some of the patterns of inflow of investment needs to be studied for further opening the sectors that are in need of foreign investment to boost productivity and speed-up the process of growth in the economy. Service sector is major receiver of foreign investment which contributes miniscule to the employment figures though it contributes majorly in sectoral composition. Authorities needs to liberalize inflow of FDI in sectors like Agriculture, Fishing, Animal Husbandry that are connected with rural parts of the country which would boost the rural economy and provide employment, best global practices, technological led productivity growth resulting in further development of economy.

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