FOREIGN DIRECT INVESTMENT FLOWS IN INDIA

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Abstract

Foreign Direct Investment plays a significant role in the development of Indian economy. Many countries provide incentives for attractive the Foreign direct investment. Foreign Direct Investment act as bridge to full fill the gap between investment and saving need of Foreign Direct Investment depend on saving and investment rate in a country. A Foreign direct investment is an investment in the form of a controlling ownership in a business in one country by an entity based in another country. The objective behind allowing Foreign Direct Investment is to complement and supplement of domestic investment for achieving a higher level of economic development and providing opportunities for technological up gradation as well as access to global managerial skill and practices. Foreign Direct Investment in India has enabled to achieve a certain degree of financial stability, growth and development to sustain and compete with the global economy. The paper tries to examine the various set of factors which influence the flow of Foreign Direct Investment identifying the causes for low inflow and suggestive remedial measures to increase the flow of Foreign Direct Investment in India with that of other developing nations in the world. The paper also attempted to make year wise analysis sector analysis and sources of Foreign Direct Investment. The paper also described Foreign Direct Investment confidence index report.

Introduction

Foreign direct investment (FDI) is an investment made by an organization/entity in one country in an industrial/business activity in another country. Foreign Direct Investment can take place in the form of establishing new business operations from scratch or acquiring existing business assets in the other country. Foreign Direct Investment includes mergers and acquisitions, building new facilities, expansion of existing production capacity, etc. Foreign Direct Investment usually involves control/participation in management, joint-venture, management expertise and technology transfer. It excludes investment through purchase of securities or portfolio Foreign investment, a passive investment in the securities of another country e.g. shares and bonds. Company invest in foreign country in order to gain control over the market and thereby increase sales market control is possible by establishing control of managerial decision making by investment in equal share capital.

Objectives

- To analyse sector wise inflow of Foreign Direct Investment in India.
- To identify the problems relating to inflows of Foreign Direct Investment and to make suitable suggestion for attracting more Foreign Direct Investment inflow in India.
- To identify the factors influencing the flow of Foreign Direct Investment in India.
- To analyse Foreign Direct Investment confidence index report.

Review of literature

Balasubramanyam. V.N and Vidya Mahambre (2003) concluded that Foreign Direct Investment is a very good means for the transfer of technology and knowhow to the developing countries. Peng Hu (2006)analyses various determinant that influence Foreign Direct Investment inflows in India which include economic growth, domestic demand, currency stability, government policy and labour force availability against other countries that are attracting Foreign Direct Investment inflows. P Subba Rao (2017) studied the factor influencing the flow of Foreign Direct Investment and trends of Foreign Direct Investment in India. He also focuses on various reasons for Foreign Direct Investment and the forms in which take place. Singh S., Singh M. (2011) "trends and prospects of Foreign Direct Investment in India" This study investigates the trend of Foreign Direct Investment inflow to India, during 1970-2007 using time series data. This paper aims to study the reasons behind the fluctuations of the Foreign Direct Investment inflow in India and too search the cause that is responsible for the fluctuations of the trends of Foreign Direct Investment.

Supply Factors

- Production costs
- Logistics
- Resource availability
- Access to technology

Demand factors

- Customer access
- Marketing advantages
- Exploitation of competitive advantages
- Customer mobility

Political factors

- Avoidance of trade barriers ➢ Economic development incentives.

Supply factors

Firm invest capital in foreign countries due to lower costs of business in foreign countries. These include logistics, resource availability, production costs and access to technology.

- Logistics: it the cost of transportation from the domestic country to a foreign market is high and or the time of transportation of the production to a foreign market is long, then the firms undertake Foreign Direct Investment.
- Availability of Natural Resources: companies locate their production facilities close to the source of critical inputs.
- Availability of Quality Human Resource at Low Cost: High quality human resource contributes to high value addition to the product/services. Further, if such human resource is available at low cost, the level of productivity in monetary terms is higher and the cost of value addition is still lower.
- Access to key Technology: Firms go for Foreign Direct Investment in order to have access to existing key technology rather than developing technology.

Demand factors

Companies also select the Foreign Direct Investment strategy in order to increase the total demand for their product. These factors are:

- Customer access: certain business firms particularly fast food, service oriented and retail outlets should locate their operations close to customers.
- Marketing advantage: Companies can enjoy a number of marketing advantages by locating their operations in a host country. These advantages include lower marketing costs, accessibility to hands-on experience regarding customer and market handling, improving customer service, etc.
- Customer mobility: The companies which have one or a few customers select the Foreign Direct Investment strategy along with their customers.

Political factors

Companies enter foreign markets through Foreign Direct Investment in order to overcome the trade barriers imposed by the host country and/or to avail the incentives offered by the host governments.

- Avoidance of Trade Barriers: Companies establish production facilities in Foreign markets in order to avoid trade barriers like high export tariffs, quotas etc.
- Economic Development Incentives: Governments at different levels, i.e. local, state and nation levels offer incentives to attract domestic as well as foreign investment.

Reason for FDI

Ownership

Resource-Seeking

Investments which seek to acquire factors of production that is more efficient than those obtainable in the home country of the investing firm. In some cases, these resources may not be available in the realm of their own economy (e.g. cheap labour and natural resources). In developing countries the issues that typifies FDI is to seek economies of scale, for example seeking natural resources in the Middle East and Africa and cheap labour in the areas of Southeast Asia and Eastern European countries. Investments that seek such endowments are referred to as resource seeking FDI.

Market-Seeking

Market seeking FDI is motivated by the intention to supply a market that until then had been supplied with exports with locally produced goods. It is not the differences in factor prices that lead to this move, but rather the appraisal of proximity to the foreign market versus the advantages of concentration of the production process at one location. Whenever the advantages of proximity outweigh those of concentration, FDI will appear to be a rational choice. FDI of this kind may also be employed as defensive strategy; it is argued that businesses are more likely to be pushed towards this type of investment out of fear of losing a market rather than discovering a new one.

Location

Labour-seeking

One of the most important determinants for resource seeking FDI is the availability and wage rate of unskilled labour work. Labour cost has always been argued to be a major component of total production cost and of the productivity of firms. Frequently, to attract such production, host countries have set up free trade or export processing zones.

Size economies of scale.

A significant presence of MNEs can bring about fundamental changes in industrial structure, particularly for smaller and medium sized countries. If Foreign MNEs operate in sectors that are imperfectly correlated with those dominated by indigenous firms, FDI can help create a better diversified economy.

Human Capital

Foreign Direct investors are also concerned with the quality of the labour force in addition to its cost. In fact the cost advantages accrued by lower wages in developing nations can well be mitigated by lowly skilled workers. A more educated labour force can learn and adopt new technology faster and is generally more productive. Higher level of human capital is a good indicator of the availability of skilled workers, which can significantly boost the location advantage of a country.

Size economies of scale

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A key feature of the open door policy has been the encouragement of Foreign direct investment in the economy. A major advantage claimed for allowing FDI has been that it is an effective way for gaining access to advanced technology, as the partner in the various forms of venture possible has a vested interest in successful outcome. Their result showed that FDI is an important vehicle of technology transfer, contributing more economic growth than domestic investment where they make a case of minimum threshold stock of human capital necessary to absorb Foreign technologies and linkage between FDI and human capital and domestic investment are crucial to achieve the economic growth.

Reason for low inflow of FDI in India

1. Lack of adequate infrastructure: India old and biggest infrastructure problem is the supplies of the electricity power cuts are consider as common problem and many industries are forced to close their business.

2. Lack of decision making authority with the state government: State government the reform process of liberalizing the economy is concentrated mainly in the centre and the state governments are not given much power.

3. High corporate tax rate: High corporate tax rate is definitely major disincentive to Foreign companies invest in India.

FDI FLOWS TO INDIA: COUNTRY WISE **DATE- AUGUST 29, 2018**

Source/ Industry	2013-14	2014-15	2015-16	2016-17	2017-18 P
1	2	3	4	5	6
Total FDI	16,054	24,748	36,068	36,317	37,366

Mauritius	3,695	5,878	7,452	13,383	13,415
Singapore	4415	5137	12479	6529	9273
Netherlands	1157	2154	2330	3234	2677
USA	617	1981	4124	2138	1973
Japan	1795	2019	1818	4237	1313
Cayman islands	25	72	440	49	1140
Germany	650	942	927	845	1095
Hong Kong	85	325	344	134	1044
United kingdom	111	1891	842	1301	716
Switzerland	356	292	195	502	506
UAE	239	327	961	645	408
France	229	347	392	187	403
China	121	505	461	198	350
Italy	185	167	279	364	308
South korea	189	138	241	466	293
Cyprus	546	737	488	282	290
Canada	11	153	52	32	274
Other	1626	1682	2243	1490	1889

FDI FLOWS TO INDIA: INDUSTRY WISE

Source/ Industry	2013-14	2014-15	2015-16	2016-17	2017-18 P
1	2	3	4	5	6
Total FDI	16,054	24,748	36,068	36,317	37,366

Communication services	1256	1075	2638	5876	8809
Manufacturing	638	9613	8439	11972	7066
Retail and wholesale trade	1139	2551	3998	2771	4478
Financial services	1026	3075	3547	3732	4070
Computer services	934	2154	4319	1937	3173
Business services	521	680	3031	2684	3005
Electricity and other energy generation	1284	1284	1364	1722	1870
Construction	1276	1640	4141	1564	1281
Transport	311	482	1363	891	1267
Miscellaneous services	941	586	1022	1816	835
Restaurants and hotels	361	686	889	430	452
Real estate activities	201	202	112	105	405
Education, research and development	107	131	394	205	347
Mining	24	129	596	141	82
Trading	0	228	0	0	0
Other	293	232	215	470	226

NOTE – Includes FDI through SIA/FIPB and RBI routes only.

Amount in US$ Million

Source – RBI

Gross inflow of FDI to India increases during the year mainly due to higher flows into the communication service, retail and wholesale trade, financial services and computer services. In term of sources FDI inflows were concentrated mostly in Mauritius and Singapore that accounted for about 61% of total equity investment.

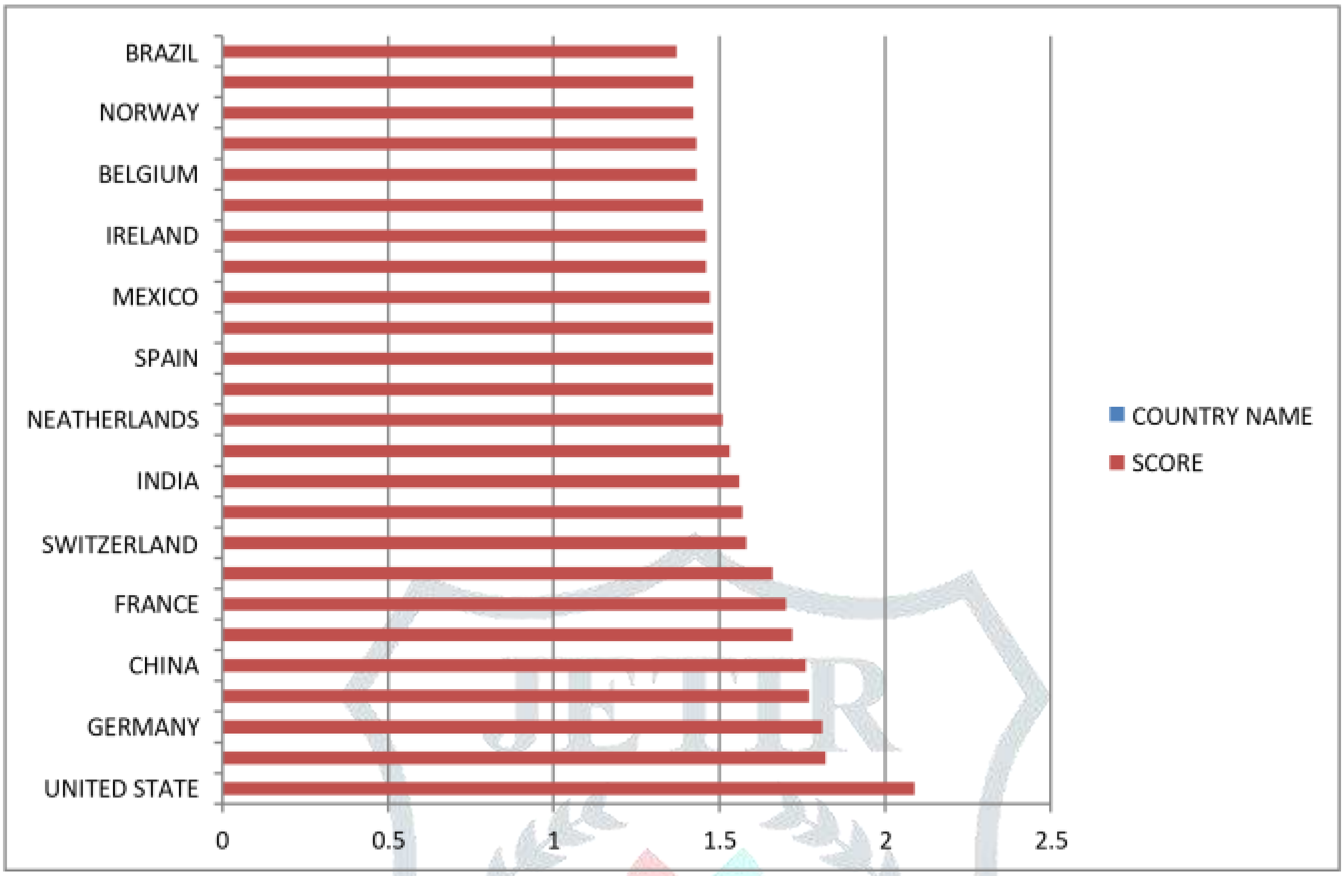
FDI confidence index

The index is annual analysis of how political, economic, and regulatory changes will likely affect FDI inflows into countries in coming years. It is constructed using primary data from proprietary survey administered to senior executives of world's leading corporations. Companies participating in survey have annual revenues of $500 million or more.

FDI confidence index report 2016 to 2018

NAME OF COUNTRY	RANKING 2016	2017	2018	SCORE
UNITED STATE	1	1	1	2.09
CANADA	3	5	2	1.82
GERMANY	4	2	3	1.81
UK	5	4	4	1.77
CHINA	2	3	5	1.76
JAPAN	6	6	6	1.72
FRANCE	8	7	7	1.7
AUSTRIALIA	7	9	8	1.66
SWITZERLAND	11	12	9	1.58
ITALY	16	13	10	1.57
INDIA	9	8	11	1.56
SINGAPORE	10	10	12	1.53
NEATHERLANDS	14	14	13	1.51
SWEDEN	22	15	14	1.48
SPAIN	13	11	15	1.48
NEW ZEALAND	-	23	16	1.48
MEXICO	18	17	17	1.47
SOUTH KOREA	17	18	18	1.46
IRELAND	23	20	19	1.46
DENMARK	20	-	20	1.45
BELGIUM	19	22	21	1.43
PORTUGAL	-	-	22	1.43
NORWAY	25	-	23	1.42
AUSTRIA	24	24	24	1.42
BRAZIL	12	16	25	1.37

Mainly broadly, all of North America performs well on the FDI confidence index this year. Canada raises three Spots to second place- its strongest performance in the history of the index. This extends Canada's streak among the top five markets on the index to six year. Furthermore, investors are very optimistic about Canada's economic prospects, reporting greater net optimism for Canada than for the United States. Mexico is another strong performer, holding steady at 17th, even as all other emerging markets fall in the rankings.



SOURCE: A.T. Kearney Foreign Direct Investment Confidence Index

Conclusion: -

FDI plays an important role in the long term development of a country not only as a source of capital but also for enhancing competitiveness of the domestic economy through transfer of technology. According to the confidence index report of FDI India's ranking is 11th. There are several factors which influence the flow of FDI. We find that the major problem for low FDI in India are lack of infrastructure, obsolete technology, high corporate tax etc. therefore there is urgent need to adopt innovative policies and good corporate governance practise on par with international standards, by the Government of India, to attract more and more Foreign capital in various sector of economy to make India a developed economy.

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