FOREIGN DIRECT INVESTMNET IN INDIA: AN OVERVIEW WITH SPECIAL REFERENCE TO SERVICE SECTOR

Shelly*

Monika Gulati**

ABSTRACT

Indian economy is being widely acclaimed and recognized as an emerging global power. It is the fact that the 1991 reforms were a response to the grave economic crisis of one or the other which the country faced with at that time. The structural changes based on sectoral income showed a rapid economic transformation of Indian economy from predominantly agrarian to the service oriented. FDI inflows have been increased in the post reform period and now India seems to be quite attractive place for such kind of investments. But in comparison of the neighbouring countries like China the global share of FDI in India is very low. The framework of policies put by the India's policy makers was guided by the desire to limit the foreign control of economic activity but at the same time take the advantage of the technology and know how provided by foreign capital. This attempt at riding two horses in tandem, a complex feat, inevitably resulted in a complex and cumbersome bureaucratically guided FDI regime and earned India the reputation for hostility towards FDI. But despite this over the last decade, the fast pace of economic growth and progressive policy, liberalization has made India an attractive destination for world's investments. India's FDI policy has progressively evolved into more and more liberal and further opening up of the service sector which has been most preferred sector for FDI will help realize India its true potential of economic growth on world's arena. BFSI (Financial, Insurance & Banking services) was the most preferred destination for FDI in India. FDI in the BFSI sector accounted for over 12% of the total cumulative FDI inflows into India, and over 59% of the FDI in Service sector.

*Assistant Professor in Management, SDIMT, Jagadhri

**Assistant Professor, HEC, Jagadhri

INTRODUCTION:

Since 1991, after the liberalization and economic reform, India's growth rate has been particularly impressive. With the liberalization in 1991, India bid goodbye to the slow, cautious and conservative so-called "Hindu rate of growth" and started growing at a much faster rate. it is a common trend in developing countries that as an economy grows, first the share of industry and subsequently the share of services in national output increases.\

Comparative share of Agriculture, Industry and service in India

YEAR	Share in GDP (in %)		
	Agriculture	Industry	Service
1980	38.1	25.9	36
1990	31	29.3	39.7
2001	24.7	26.4	48.8
2012	14.6	28.6	57.2

It may be said that in 1980-90 agriculture lost its share to both industry and service and after 1990both agriculture and industry lost their share to service sector. The structural changes based on sectoral income showed a rapid economic transformation of Indian economy from predominantly agrarian to service oriented. The contribution of service sector to Indian economy has been manifold and it has come to play a dominant role. This sector has emerged as potential growth engine for Indian economy with its more than 55% share in GDP, growing by 10% annually and playing a catalytic role in employment generation, export promotion and holding a major share in FDI inflows. Such a growth pattern holds promise for India to realize a rapid and fast economic growth. This is the reason that now India seems to be quite attractive place for the FDI and service sector has emerged as major recipient of FDI equity flow in India.

Foreign direct investment (FDI) has been instrumental behind the growth of services sector in India. Since the opening up of the economy in 1991, FDI in India has grown in leaps and bound. It is estimated that more than 40% of output in country's organized sector is attributed to FDI brought by MNCs.FDI has been accumulating in country over decades and has been complementing domestic investment in a big way. It has now spread over a vast range of segments specially service sector. The need for FDI in the country has been emphasized in various industrial policies from time to time and specific measures have been enforced to attract investment particularly in area of national importance. The trends of FDI inflows are as follows:

CUMULATIVE FDI FLOWS INTO INDIA (2000-2012):

A. TOTAL FDI INFLOWS (from April, 2000 to November, 2012):

1	**CUMULATIVE AMOUNT OF FDI INFLOWS (Equity inflows + 'Re-invested earnings' +'Other capital'**)		**US$ 277,865 million**
2	**CUMULATIVE AMOUNT OF FDI EQUITY INFLOWS (excluding,** amount remitted through RBI's-NRI Schemes)	Rs. 860,698 crore	**US$ 186,704 million**

B. FDI INFLOWS DURING FINANCIALYEAR 2012-13 (from April, 2012 to November, 2012):

1	**TOTAL FDI INFLOWS INTO INDIA (Equity inflows + 'Re-invested earnings' + 'Other capital')** (as per RBI's Monthly bulletin dated: 11.01.2013).		**US$ 24,650 million**
2	**FDI EQUITY INFLOWS**	Rs. 86,225 crore	**US$ 15,845 million**

SERVICE SECTOR AND FDI INFLOWS:

In post reform period the service sector has emerged as the major recipient of FDI equity inflows in India. However the measurement of the share of services in FDI inflows encounters problems as it is difficult to clearly differentiate activities services and goods in services such as computer hardware and software, telecommunications and construction. Never the less, the service sector has been attracting a major share of FDI equity inflows.

C. SECTORS ATTRACTING HIGHEST FDI EQUITY INFLOWS:

Amount in Rs. crores (US$ in millions)

Rank	Sector	2010-11 (April - March)	2011-12 (April - March)	2012-13 (April – Jan.)	Cumulative Inflows (April " 00 – Jan 13	% age to total Inflows (In terms of US$)
1	Service Sector	15,054 **(3,296)**	24,656 **(5,216)**	25,367 **(4,660)**	171,345 **(37,063)**	**20 %**
2	Construction Development: Township, Housing, Building up Infrastructure.	7590 (**1663)**	15,236 **(3,141)**	6,562 **(1,206)**	100,363 **(21,954)**	**12 %**
3	Telecommunication	7,542 **(1,665)**	9,012 **(1,997)**	507 **(93)**	57,585 **(12,645)**	**7 %**
4	Computer Hardware and software	3,551 **(780)**	3,804 **(796)**	2,382 **(435)**	52,500 **(11,640)**	**6 %**
5	Drugs & Pharmaceuticals	961 **(209)**	14,605 **(3,232)**	5,389 **(1,008)**	48,257 **(10,202)**	**5 %**

(Table 1: Top Five sectors attracting highest FDI Equity)

Table No.1shows that the share of five sectors namely service , construction, telecommunication, computer hardware and software, drugs and Pharmaceuticals contribute to 50% of FDI inflow Equity in India. Major share is of Service sector which is 20%.

D. SHARE OF TOP INVESTING COUNTRIES:

Share of Top Five investing countries in India stood at 70%. Mauritius is the top country of origin for FDI flows into India primarily driven by the tax haven status enjoyed by Mauritius. Service sector (Financial & Non Financial) attracted the largest FDI equity flows around 20%.

Amount in Rs. crores (US$ in millions)

Rank	Countries	2010-11 (April - March)	2011-12 (April - March)	2012-13 (April –Jan.)	Cumulative Inflows (April " 00 – Jan 13	% age to total Inflows (In terms of US$)
1	Mauritius	31,855 **(6,987)**	46,710 **(9,942)**	44,508 **(8,175)**	333,979 **(72,343)**	38 %
2	Singapore	7,730 **(1,705)**	24,712 **(5,257)**	9,968 **(1,823)**	87,556 **(18,976)**	10 %
3	U.K.	12,235 **(2,711))**	36,428 **(7,874)**	5,625 **(1,048)**	80,286 **(17,517)**	9 %
4	Japan	7,063 **(1,562)**	14,089 **(2,972)**	9,308 **(1,693)**	67,159 **(14,006)**	7 %
5	U.S.A.	5,353 **(1,170)**	5,347 **(1,115)**	2,726 **(500)**	50,615 **(11,064)**	6 %

(Table 2: Top Five Investing countries in India)

E. SHARE OF TOP REGION/ STATE RECEVING FDI IN INDIA:

Various states have been showing considerable interest in attracting foreign investments as is evident from following table. Top five RBI Regional offices are fetching approximately 69% of total FDI equity inflows in India.

Rank	RBI's Regional offices	2010-11 (April - March)	2011-12 (April - March)	2012-13 (April –Jan.)	Cumulative Inflows (April " 00 – Jan 13	% age to total Inflows (In terms of US$)
1	Mumbai	27,669 **(6,097)**	44,664 **(9,553)**	40,909 **(7,523)**	287,044 **(62,144)**	33 %
2	New Delhi	12,184 **(2,677)**	*37,403* ***(7,983)***	17,020 **(3,135))**	168,112 **(36,207)**	19 %
3	Bangalore	6,133 **(1,332)**	7,235 **(1,533)**	4,342 **(799)**	48,234 **(10,561)**	6 %
4	Chennai	6,115 **(1,352)**	6,711 **(1,422)**	11,850 **(2,176)**	49,408 **(10,449)**	6 %
5	U.S.A.	3,294 **(724)**	4,730 **(1,001)**	2,470 **(455)**	38,893 **(8,612)**	5 %

(Table3: Statement on RBI's Regional offices (with state covered) received FDI equity inflow)

F. ROUTE OF FDI INFLOWS IN INDIA:

Investments can be made by non-residents in the equity shares/fully, compulsorily and mandatorily convertible debentures/ fully, compulsorily and mandatorily convertible preference shares of an Indian company, through two routes;

1. The Automatic Route: under the Automatic Route, the non-resident investor or the Indian company does not require any approval from the RBI or Government of India for the investment.

2. The Government Route: under the Government Route, prior approval of the Government of India through Foreign Investment Promotion Board (FIPB) is required. Proposals for foreign investment under Government route as laid down in the FDI policy from time to time are considered by the Foreign Investment Promotion Board (FIPB) in Department of Economic Affairs (DEA), Ministry of Finance.

Over the years, Automatic route has become the most used entry route for FDI investments in India indicating the gradual liberalization of FDI policy. In FY 2011-12 64% of Equity inflow in India came via “Automatic Route” almost trebling from 22% shares in FY 2000-01. “Acquisition of Shares” constituted 25% and FIPB/SIA constituted 11% of equity inflows in India. India’s FDI policy has progressively liberalized since 1990s and now India’s inward investment regime is now to be most liberal and transparent amongst economies.

CONCLUSION:

Indian widely economy is being widely acclaimed and reorganized as an emerging as an emerging global economic power. In post reform era, FDI inflow has been increased and India is supposed to be an attractive place for FDI. But still the global share, in quantitative term, is not satisfactory and is very low in comparison to China and other neighbouring countries. The Indian policy makers want to take advantage of the technology and know-how provided by the foreign capital and simultaneously they have desire to limit the foreign control.

Initially FDI has come in the most capital intensive sector, which could not generate employment opportunities especially for manual and semi skilled labour.

India’s FDI policy has progressively evolved into more and more liberal and further opening up of the service sector which has been most preferred sector for FDI will help realize India its true potential of economic growth on world’s arena. BFSI (Financial, Insurance & Banking services) was the most preferred destination for FDI in India. FDI in the BFSI sector

accounted for over 12% of the total cumulative FDI inflows into India, and over 62% of the FDI in Service sector.

REFERENCE:

1. Srivastva, Sadhana(2003), " What is the true level of FDI flow to India?" Economic and Political weekly, EPW Commentary.
2. Pardhan, Parkash Rudra(2006), " FDI in Globalization Era: Chinese and Indian Experiences" Prajan Vol. 34(4), 2005-06.
3. Chakraborty, Chandana and Nunnenkamb, Peter(2008), " Economic Reform, FDI and Economic Growth in India: A sector Level Analysis" World development, July, Vol. 36(7), pp 1192-1212.
4. Gupta, Manisha S(2009), "Foreign Direct Investment in India" IME Journal, January, Vol3(1), pp21-27.
5. www.finmin.com
6. www.dipp.nic
7. http://www.investopedia.com/terms/f/fdi.asp
8. http://economictimes.indiatimes.com/topic/FDI