

An Introduction of Foreign Direct Investment Companies in India

Dr. Sandeep Kumar
Assistant Professor (Economics)
C. R. Kisan College, Jind
sandeepabhiboora@gmail.com

Abstract:

Foreign Direct Investment plays a constructive role in the economic development of any country. It accelerates the productivity, wages rate, technology, competition and efficiency. Foreign Direct Investment is an important instrument to filling the gap when the domestic saving, export earning and investment are insufficient. This research paper studies the growth & trend of Foreign Direct Investment Companies in terms of sale and value of production and examines the industry and country of origin wise distribution of foreign direct Investment companies. The study focuses on Non-Govt. Non Financial (NGNF) foreign direct investment (FDI) companies in India. It is based on secondary collected from RBI, press release and economic & political weekly. The analysis reveals that there is positive relationship between number of FDI companies and their value of production and sale. The country-wise and sector-wise distribution of foreign direct Investment companies shows that that Mauritius is the leading investing companies in FDI both in manufacturing and construction followed by Singapore and USA.

Key Words: Foreign Direct Investment, Non-Govt. Non Financial (NGNF), Service Manufacturing.

Introduction:

Capital formation is the important tool for the growth of the economy. Foreign capital and technology plays an imperative role in socio- economic development of a nation by providing technical know-how, raw material etc. Foreign Direct Investment is an important instrument to filling the gap when the domestic saving, export earning and investment are insufficient. Foreign direct investment can be defined basically as an investment of foreign assets into domestic structure, equipment and organization. According to International Monetary Fund (IMF), FDI is defined as "an investment operating in an economy other than that of the investor." The investor's purpose

is to have an effective voice in the management of the enterprise (IMF, 1977). FDI has vast potential to transfer the knowledge and technology, enhance productivity, create competition and reduce poverty through economic development. Economic survey 2002-03 stated that foreign direct investment had direct impact on output and growth in India by augmenting the available investible capital. FDI is an important component for development strategy in both developed and developing nations if the policies are designed in order to stimulate inward flows. Both countries are directly interested in inviting FDI, because they benefit a lot from such type of investment. India is the second fastest growing major economy in the world. Indian economy is diverse and encompasses agriculture, handicrafts, manufacturing, textile and a multitude of services (Wang et al., 2010). Explosive growth of FDI gives opportunities to Indian industry for technological upgradation, gaining access to global managerial skills and practices, optimizing utilization of human and natural resources and competing internationally with higher efficiency. Most importantly FDI is central for India's integration into global production chains which involves production by MNCs spread across locations all over the world. (Economic Survey 2003-04). There are three primary institutions in India that handle FDI related issue:

- The Foreign Investment Promotion Board (FIPB)
- The Secretariat for Industrial Assistance (SIA)
- Foreign Investment Implementation Authority (FIIA)

Review of Literature:

Chakraborty and Basu (2002), analyzed a link between FDI and output growth in India. The researcher concluded that trade liberalization policy of India and FDI flows has positive short term impact and casualty runs from GDP to FDI. **Ramirez (2006)** suggested that increase in private and foreign investment per worker had a positive and economically significant effect on the rate of labour productivity growth. **Cevis and Camurdan (2007)** estimated the economic determinants of FDI inflows with a set of 17 developing countries and transition economics and revealed that inflation rate, interest rate, growth rate and trade rate are the main determinants of FDI inflows. **Hattariand and Rajan (2008)** studied the trends, pattern and drivers of Intra-Asian FDI flows

utilizing bilateral FDI flows with the help of 14 developing Asian Countries for the period 1990 to 2005. **Jain et al. (2008)** examined the opportunities and Challenges in the FDI in retail sector in India an observed three major challenges faced by retail sector were manpower, real estate and supply chain. **Yang and Lamine (2010)** found that the level of FDI is still low to promote economic growth for Guinea republic during the period of 1985 to 2008 with the help of total granger causality test.

Objectives of the Study:

The purpose of this study is

- To study the growth and trend of Foreign Direct Investment Companies in terms of sale and value of production.
- To examine the industry and country of origin wise distribution of Foreign Direct Investment Companies.

Research Methodology:

The present study is an attempt to highlight the emerging trends in Non-Govt. Non Financial (NGNF) foreign direct investment (FDI) companies. The study is based on secondary collected press release and economic & Political weekly. The time period of the study is 1991-92 to 2012-13. For the study of industry and country of origin wise distribution of FDI companies, year 2012-13 is selected. To analyze the trends and growth exponential growth rate iscalculated.

Result and Discussion:

Table 1: Growth and trend in FDI companies

Year	No. of Companies	Sales (in crore)	Value of Production (in crore)
1991-92	275	24888	25557
1992-93	241	19694	19956
1993-94	241	22939	22895

1994-95	268	31160	31568
1995-96	284	33711	34203
1996-97	321	45100	42317
1997-98	334	55222	55915
1998-99	447	71210	71477
1999-00	465	60510	60914
2000-01	490	68367	68663
2001-02	508	86228	86280
2002-03	518	82730	82866
2003-04	501	129659	130418
2004-05	524	223292	225578
2005-06	502	223664	226168
2006-07	533	389076	394548
2007-08	681	469902	477869
2008-09	745	573923	578916
2009-10	766	630024	631545
2010-11	917	636149	648316
2011-12	917	748936	755619
2012-13	917	855515	861879
EGR (%)	6.75	21.27	21.3

Source: Economic and Political Weekly, various issues.

In Table no.1, as a part of general trend it was observed that as the number of FDI companies increase, value of production and sale also increases except years 2002-03, 2003-04 and 2005-06 which showed a reversed trend. In 2003-04 and 2005-06 number of FDI companies decreased but sales and value of production showed the increasing trends and in the year 2002-03 number of companies increased however the value of production and sales decreased. It also shows exponential growth rate of number of FDI companies to be 6.75% and exponential growth rate of sales and value of production to be 21.27% and 21.30%. As we compare the sale and value of production with the growth rate of FDI companies, it was approximately more than three times.

Thus, it indicates there is positive relationship between the number of FDI companies and their value of production and sale.

TABLE 2: FOREIGN DIRECT INVESTMENT FLOWS TO INDIA: COUNTRY-WISE AND INDUSTRY-WISE					
(US \$ million)					
Source/Industry	2007-08	2008-09	2009-10 P	2010-11 P	2011-12 P
1	2	3	4	5	6
Total FDI	19,425	22,697	22,461	14,939	23,473
Country-wise Inflows					
Mauritius	9,518	10,165	9,801	5,616	8,142
Singapore	2,827	3,360	2,218	1,540	3,306
U.S.A	950	1,236	2,212	1,071	994
Cyprus	570	1,211	1,623	571	1568
Japan	457	266	971	1,256	2,089
Netherlands	601	682	804	1,417	1,289
United Kingdom	508	690	643	538	2760
Germany	486	611	602	163	368
UAE	226	234	373	188	346
France	136	437	283	486	589
Switzerland	192	135	96	133	211
Hong Kong SAR	106	155	137	209	262
Spain	48	363	125	183	251
South Korea	86	95	159	136	226
Luxembourg	15	23	40	248	89
Others	2,699	3,034	2,374	1,184	983
Sector-wise Inflows					
Manufacture	3,726	4,777	5,143	4,793	9,337
Construction	2,551	2,237	3,516	1,599	2,634
Financial Services	3,850	4,430	2,206	1,353	2,603
Real Estate Activities	1,336	1,886	2,191	444	340
Electricity and other Energy Generation, Distribution & Transmission	829	669	1,877	1,338	1,395
Communication Services	66	2,067	1,852	1,228	1,458
Business Services	1,158	643	1,554	569	1590

Miscellaneous Services	1,901	1,458	888	509	801
Computer Services	1,035	1,647	866	843	736
Restaurants & Hotels	280	343	671	218	870
Retail & Wholesale Trade	200	294	536	391	567
Mining	461	105	268	592	204
Transport	816	401	220	344	410
Trading	176	400	198	156	6
Education, Research & Development	156	243	91	56	103
Others	884	1,097	384	506	419
P: Provisional.					
Note: Includes FDI through SIA/FIPB and RBI routes only.					

Source: RBI Press Release, Aug. 2012

The Table 2 represents the industry and country and origin wise distribution of FDI companies. The analysis reveals that Mauritius has highest number of FDI companies followed by Singapore and USA while the lowest number of FDI pertained to Luxembourg followed by South Korea and Spain. The analysis indicates that in manufacturing sector has highest number of FDI. In this, the major investing companies are involved in Construction, Financial Services, Real Estate Activities, Electricity and other Energy Generation, Distribution & Transmission, Communication Services, Business Services, Computer and related activities among which Mauritius has highest number of FDI companies followed by Singapore and USA. Construction is at second position with Mauritius as leading investor. The analysis of above data shows that Mauritius is the leading investing companies in FDI both in manufacturing and construction followed by Singapore and USA.

Conclusion:

The present study examines the growth and trend of Foreign Direct Investment Companies in terms of Sale and value of production and examines the country-wise and sector-wise distribution of foreign direct Investment companies. The result indicates that as the number of FDI companies increase value of production and sale also increases. The country-wise and sector-wise distribution of foreign direct Investment companies shows that that Mauritius is the leading investing companies in FDI both in manufacturing and construction followed by Singapore and USA.

References:

1. Cevis I. and Camurdan B. (2007), "The Economic Determinants of Foreign Direct Investment in Developing Countries and Transition Economic", *Pakistan Development Review*, Vol. 46(3), pp. 285-299.
2. Chakraborty, C. Jan Baru, P. (2002), "Foreign Direct Investment and Growth in India: A Co-integration Approach", *Applied Economics*, Vol.4, pp. 1061-1073.
3. Economic Survey,(2002-03)and (2003-04): Ministry of Finance, Government of India, New Delhi
4. Hattari,Robin; and Rajan, Ramkishen S. (2008)," Trends and Drivers of Bilateral FDI Inflows in Developing Asia: , *Hong Kong institute for Monetary Research*, working paper, no 11.
5. Hooda, M. S. (2011). "A study of FDI and Indian Economy" Thesis submitted to National Institute of Technology, Kurukshetra University, Kurukshetra.
6. Jain *et al.*; Jain Ravi Kumar; and Jain A.K (2008) FDI in Retail Sector in India: Opportunities and Challenges in the Present Scenario", *Asia Pacific Business Review*. Vol. 1 IV (4), pp 129-134.
7. Ramirez, Miguel P (2006)," Is Foreign Direct Investment Beneficial for Mexico?-An Empirical Analysis: 1960-2001 ", *World Development*, Vol. 34(5), pp.802-817.
8. Wang, Yang and Wang, Lugian (2010), "The Economic Growth Effect of Logistics Industry FDI Analysis", *I Business*, Vol. 2, pp.377-381.
9. Yang, Dakaian and Gamine, Keita Mohamed (2010)," Foreign Direct Investment Effect on Economic Growth: Evidence from Guinea Republic in West Africa", *International Journal of Financial Research*, Vol. 1(1), pp. 49-54.