GROWTH PATTERN OF FDI IN INDIA WITH REFERNCE TO COUNTRY WISE , SECTOR WISE, OR REGION WISE

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ABSTRACT :

Globalization and Foreign Direct Investment (FDI) is playing an important role in the development of developed, developing as well as underdeveloped economies. The reasons are simple like introduction of new products, new skills, easy approachable markets and modern technology to the host countries. Every country around the world is playing a important role in the encouragement of foreign and overseas investors and their investments. India is being ranked as the second most favored destination for foreign investments after China by showing a growth year after year. The main objective of the study is to examines the trends and growth patterns in the foreign direct investment (FDI) across different sectors and from different countries in India during 2000-10.

Key words: FDI (foreign Direct investment), inward investment, equity inflows.

INTRODUCTION :-

Foreign investment refers to investments made by the residents of a country in the financial assets and production processes of another country. The foreign investment, however, varies from country to country. It place a very important role to enhance the factor productivity & B.O.P. of the recipient country Foreign investment provides a channel through which countries can gain access to foreign capital.

It can come in two forms:

- foreign direct investment (FDI) and
- foreign institutional investment (FII).

Foreign direct investment involves in direct production activities and is also of a medium- to long-term nature. But foreign institutional investment is a short-term investment, mostly in the financial markets.

FII, given its short-term nature, can have bidirectional causation with the returns of other domestic financial markets such as money markets, stock markets, and foreign exchange markets.

FOREIGN DIRECT INVESTMENT: INDIAN SCENARIO

Foreign Direct Investment (FDI) is permitted as under the following forms of investments –

•Through financial collaborations.

•Through joint ventures and technical collaborations.

•Through capital markets via Euro issues.

•Through private placements or preferential allotments.

Forbidden Territories –

FDI is not permitted in the following industrial sectors:

•Arms and ammunition.

•Atomic Energy.

•Railway Transport.

•Coal and lignite.

• Mining of iron, manganese, chrome, gypsum, sulphur, gold, diamonds, copper, zinc.

• Retail Trading (except single brand product retailing).

•Lottery Business

•Gambling and Betting

•Business of chit fund

•Trading in Transferable Development Rights (TDRs).

• Activity/sector not opened to private sector investment.

Foreign Investment through GDRs (Euro Issues) –

Indian companies are allowed to raise equity capital in the international market through the issue of Global Depository Receipt (GDRs). GDR investments are treated as FDI and are designated in dollars and are not subject to any ceilings on investment. An applicant company seeking Government's approval in this regard should have consistent track record for good performance (financial or otherwise) for a minimum period of 3 years. This condition would be relaxed for infrastructure projects such as power generation, telecommunication, petroleum exploration and refining, ports, airports and roads.

FDI and Regulatory Framework

Foreign Direct Investment in India is subject to policy guidelines framed by the Government of India from time to time in accordance with its Industrial Policy. The year 1991 saw a major liberalisation in the policy by way of the Automatic Route in terms of which cases concerning foreign collaboration in respect of certain priority industries and involving not more than 51 per cent of foreign equity were allowed by the RBI without a reference to the Government of India. After 1991, certain more areas of foreign investments were opened up such as issuance of global depository receipts (GDRs) and investment by foreign institutional investors (FIIs). FDI comes through

a) Automatic route and

b) Govt. approval route.

In terms of the guidelines issued in February 2000 and subsequent amendments, except in certain circumstances, foreign investment by way of issue of shares/convertible debentures by Indian companies can be made in India under the Automatic Route without any approval from the Government of India or the Reserve Bank of India (RBI). In the circumstances where the Automatic Route is not applicable, the foreign investor or the Indian company seeking foreign investment would require the approval of the Foreign Investment Promotion Board (FIPB).

Automatic Route

Under the RBI's Automatic Route, the Indian companies can issue shares up to prescribed percentage to persons resident outside India without obtaining prior permission either of the Government or RBI. These companies must be engaged in the permissible activities under the FEMA. Companies engaged in manufacture of items reserved for SSI sector or those manufacturing items requiring industrial license or engaged in areas such as, defence, atomic energy or aerospace will not be able to avail of the Automatic Route.

Govt. Route (Approvals by SIA/FIPB)

Indian companies may want to issue shares to foreign citizens and companies incorporated outside India and such issuances may not be allowed under the Automatic Route or any other general/special permissions. In such cases, it will be necessary to apply to the Foreign Investment Promotion Board (FIPB). Approvals are granted by FIPB on a case-by-case basis. The Reserve Bank has granted general permission to Indian companies for issue and export of shares/securities to foreign investors to acquire such shares in respect of such investments approved by SIA /FIPB.

LITERATURE REVIEW

Review of various literatures available on FDI reveals that foreign investment is still a matter of debate. Whether FDI is boom or bane for host countries economic growth and development? Opinions are still divided. FDI has its own advantages and disadvantages. Many scholars argue that through FDI developed nations may try to invade the sovereignty of host country. In order to earn quick profit they may exploit the natural resources at the faster rate and thus leave the host country deprived in the long run. It have been feared that FDI is a big threat to survival of domestic players. Many are of the opinion that basic objective of foreign investments is to earn profits by ignoring the overall social & economic development of the host nation. Thus, through this section an attempt has been made to discuss various issues raised by different scholars on the subject.

It is universally acknowledged that FDI inflow offers many benefits to an economy. UNCTAD (1999) reported that Transnational Corporations (TNCs) can complement local development efforts by (i) increasing financial resources for development; (ii) boost export competiveness; (iii) generate employment and strengthening the skill base; (iv) protecting the environment to fulfill commitment towards social responsibility; and (v) enhancing technological capabilities through transfer, diffusion and generation. However, Te Velde, (1999) has rightly reported that in the absence of pro-active government policies there are risk that TNCs may actually inhibit technological development in a host country. Borensztein, et. al. (1998) reveals that FDI has a net crowding in effect on domestic private and public investment thus advancing overall economics growth. Crowding in effects of FDI varies with regions. There has been strong evidence of crowding-in in Asia and strong net crowding out effect in Latin America (Agosin and Mayer, 2000).

By and large, studies have found a positive links between FDI and growth. However, FDI has comparatively lesser positive links in least developed economies, thereby suggesting existence of “threshold level of development” (Blomstrom and Kokka, 2003 and Blomstrom et. al., 1994). Athreye and Kapur (2001) emphasized that since the contribution of FDI to domestic capital is quite small, growth-led FDI is more likely than FDI-led growth. Dua and Rasheed (1998) indicted that the Industrial production in India had a unidirectional positive Granger-Casual impact on inward FDI flows. They also concluded that economics activity is an important determinant of FDI .

UTMS Journal of Economics, Vol. 1, No. 2, pp. 1-16, 2010 M. Shamim Ansari, M. Ranga: INDIA'S FOREIGN DIRECT INVESTMENT: CURRENT STATUS...Inflows in India and not vice-versa. Tseng and Zebregs (2002) reported that even in case of China causality between market size/growth and magnitude of FDI holds true. There is global race for attracting FDI, but how much it would contribute to host country's economics development is to be assessed. Developing countries need to have reached a certain level of educational, technological and infrastructure development before being able to benefit from a foreign presence in their markets. Blomstrom et. al., (1994) have rightly observed that, the host country must be capable of absorbing the new technology manifested in FDI. An additional factor that may prevent a country from reaping the full benefits of FDI is imperfect and underdeveloped financial markets (OECD 2002). India appears to be well placed in terms of reaping benefits because it has relatively well developed financial sector, strong industrial base and S such investments approved by SIA /FIPB.

OBJECTIVES OF THE STUDY:-

The objectives of the study are:

1. To study the country-wise, sector-wise or geographically wise FDI inflows in India.
2. To examines the trends and growth patterns in the foreign direct investment (FDI) across different sectors and from different countries in India during 2000-10.

METHODOLOGY OF THE STUDY:-

The study is based on secondary data and the facts and figures collected from various sources such as Fact Sheets on FDI, Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce and Industry, Government of India(GOI).

SCOPE AND LIMITATIONS OF THE STUDY:-

The study is confined to Country-wise, Sector-wise, Region-wise flows of FDI in India and cumulative FDI inflows have been taken for the purpose of analysis.

GROWTH PATTERN OF FDI IN INDIA:-

- **COUNTRY-WISE FDI**

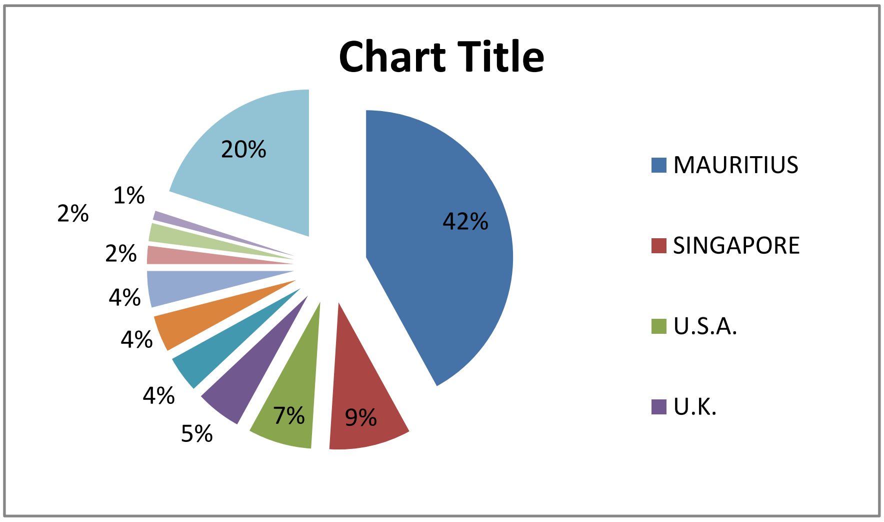
Various studies have projected India among the top 10 favoured destination for FDI. Cumulative FDI equity inflows has been 1,26,450 Million US$ for the period 2000-2010. This is attributed to contribution from service sector, computer software, telecommunication, real estate etc. India's 80% of cumulative FDI is contributed by 10 countries while remaining 20 per cent by rest of the world.Country-wise, FDI inflows to India are dominated by Mauritius (42 percent), followed by the Singapore (9 per cent), United States (7 percent) and UK (5 percent) (Table 1). Countries like Singapore, USA, and UK etc. invest in India mainly in service, power, telecommunication, fuels, electric equipments, food processing sector.

Table 1: Share of top investing countries FDI Equity Inflows

In Amount (US$ in million)

Ranks	*Country*	***Cumulative Inflows*** *(April '00 - Dec. '10)*	*%age to total Inflows (in terms of US $)*
1.	**MAURITIUS**	**(52,986)**	**42 %**
2.	**SINGAPORE**	**(11,639)**	**9 %**
3.	**U.S.A.**	**(9,333)**	**7 %**
4.	**U.K.**	**(6,359)**	**5 %**
5.	**NETHERLANDS**	**(5,503)**	**4 %**
6.	**JAPAN**	**(4,906)**	**4 %**
7.	**CYPRUS**	**(4,532)**	**4 %**
8.	**GERMANY**	**(2,910)**	**2 %**
9	**FRANCE**	**(2,215)**	**2 %**
10.	**U.A.E.**	**(1,870)**	**1 %**
11.	**COUNTRIES NOT INDICATED**	**(24197)**	**20%**
TOTAL FDI INFLOWS		**(126450)**	**100%**

Source : Ministry of commerce & industry Department of Industrial Policy & Promotion



- **SECTOR-WISE FDI INFLOWS:-**

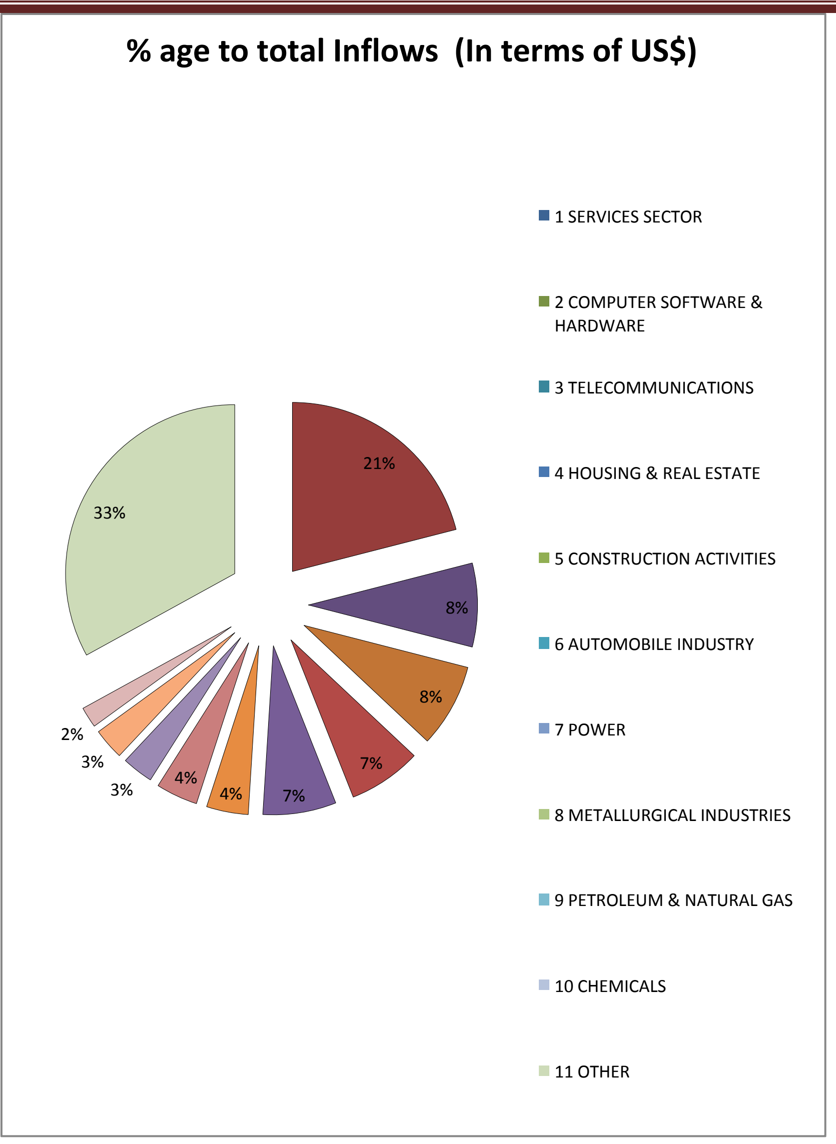
Sector-wise classification of FDI is essential to understand better structure and direction of foreign investment in the country. Service sector has been the highest contributor of FDI inflow to India (21%) followed by compute software and hardware (8%), telecommunication (8%), housing and real estate (7%), construction activities and power (7%), (Table 2).

(Table 2).**SECTORS ATTRACTING HIGHEST FDI EQUITY INFLOWS:**

Amount ` (US$ in million)

Ranks	*Sector*	*Cumulative Inflows (April '00 - Dec. '10)*	*% age to total Inflows (In terms of US$)*
1.	**SERVICES SECTOR** (financial & non-financial)	**(26,454)**	**21 %**
2.	**COMPUTER SOFTWARE & HARDWARE**	**(10,601)**	**8 %**
3.	**TELECOMMUNICATIONS** (radio paging, cellular mobile, basic telephone services)	**(10,258)**	**8 %**
4.	**HOUSING & REAL ESTATE**	**(9,380)**	**7 %**
5.	**CONSTRUCTION ACTIVITIES** (including roads & highways)	**(8,964)**	**7 %**
6.	**AUTOMOBILE INDUSTRY**	**(5,662)**	**4 %**
7.	**POWER**	**(5,656)**	**4 %**
8.	**METALLURGICAL INDUSTRIES**	**(4,105)**	**3 %**
9.	**PETROLEUM & NATURAL GAS**	**(3,207)**	**3 %**
10.	**CHEMICALS** (other than fertilizers)	**(2,849)**	**2 %**

Source : Ministry of commerce & industry Department of Industrial Policy & Promotion



- **GEOGRAPHICAL DISTRIBUTION OF FDI INFLOWS:-**

Balanced geographical distribution of FDI inflows could have been instrumental in achieving sustainable growth. However, there seems to wide concentration of FDI inflows around Mumbai Region (35%) followed by New Delhi Region (19%), Karnataka (6%), Gujarat (6 %), Tamil Nadu (5%) and Andhra Pradesh (4%), (Diagram 3). It is alarming that these regions receive 77% of FDI equity inflow while rest of India accounts for only 23% due to lack of proper initiative from the various state governments. These states are responsible for wide disparities of foreign investments & also backward in terms of skilled manpower and infrastructure.

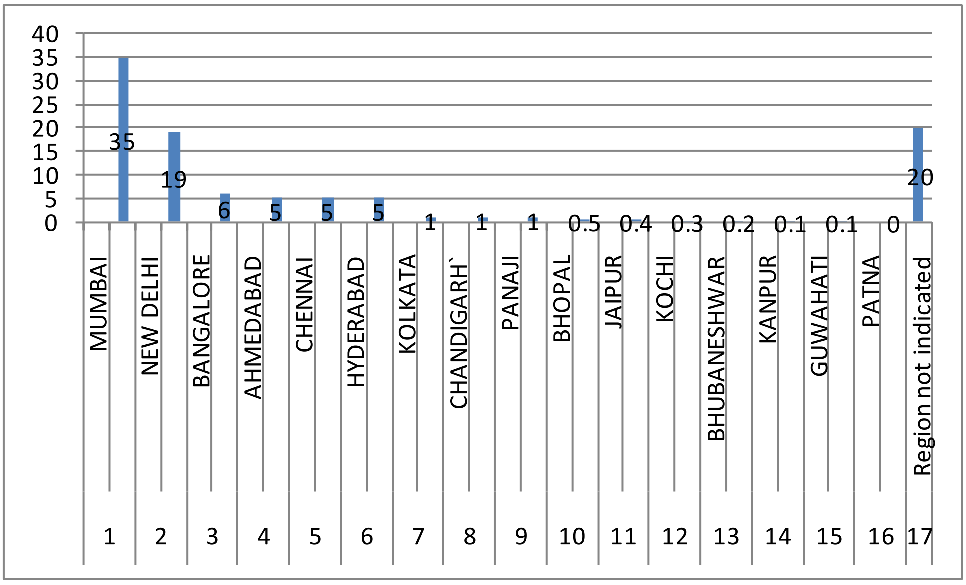
STATEMENT ON RBI'S REGIONAL OFFICES (WITH STATE COVERED) RECEIVED FDI EQUITY INFLOWS1

(from April 2000 to December 2010):

Amount (US$ in million)

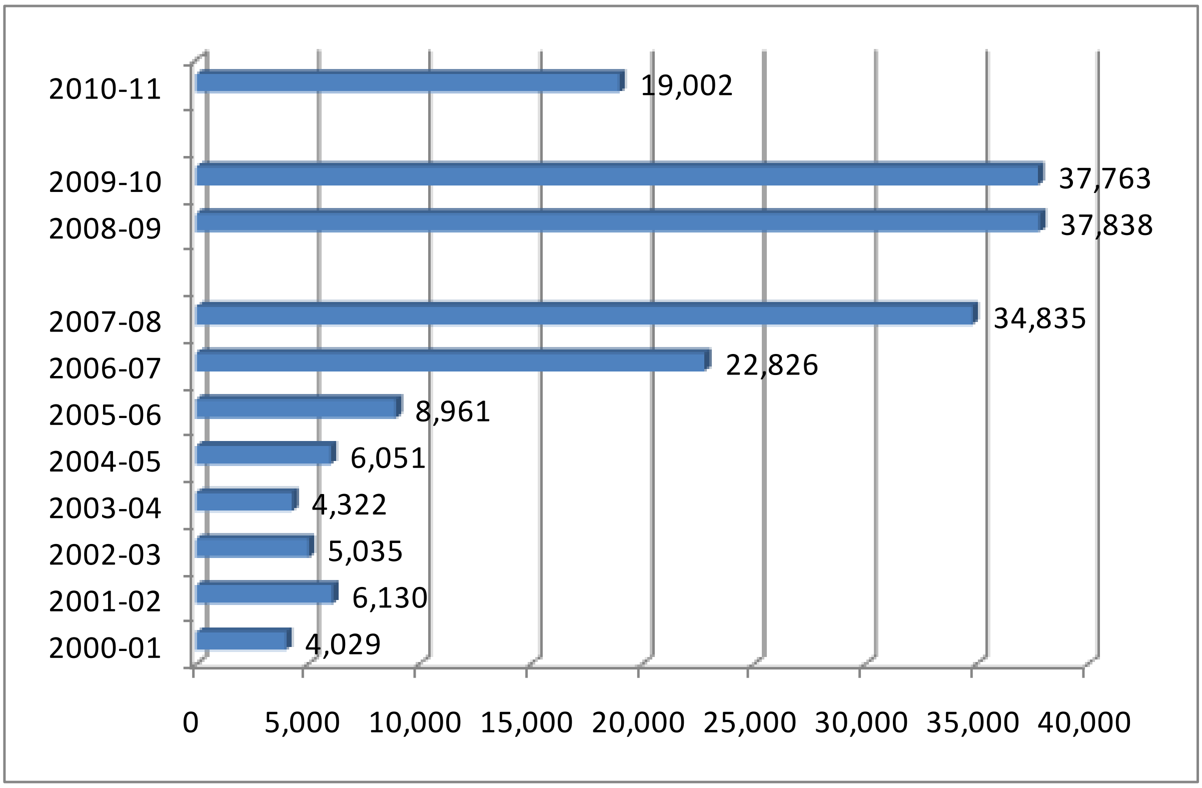
S. No.	*RBI's - Regional Office2*	*State covered*	*Cumulative Inflows (April '00 – Dec. '10)*	*%age to total Inflows (in terms of US$)*
1	MUMBAI	**MAHARASHTRA, DADRA & NAGAR HAVELI, DAMAN & DIU**	**(44,214)**	35
2	NEW DELHI	**DELHI, PART OF UP AND HARYANA**	**(24,571)**	19
3	BANGALORE	**KARNATAKA**	**(8,023)**	6
4	AHMEDABAD	**GUJARAT**	**(6,859)**	5
5	CHENNAI	**TAMIL NADU, PONDICHERRY**	**(6,621)**	5
6	HYDERABAD	**ANDHRA PRADESH**	**(5,739)**	5
7	KOLKATA	**WEST BENGAL, SIKKIM, ANDAMAN & NICOBAR ISLANDS**	**(1,479)**	1
8	CHANDIGARH`	**CHANDIGARH, PUNJAB, HARYANA, HIMACHAL PRADESH**	**(912)**	1
9	PANAJI	**GOA**	**(722)**	1
10	BHOPAL	**MADHYA PRADESH, CHATTISGARH**	**(614)**	0.5
11	JAIPUR	**RAJASTHAN**	**(514)**	0.4
12	KOCHI	**KERALA, LAKSHADWEEP**	**(362)**	0.3
13	BHUBANESHWAR	**ORISSA**	**(258)**	0.2
14	KANPUR	**UTTAR PRADESH, UTTRANCHAL**	**(162)**	0.1
15	GUWAHATI	**ASSAM, ARUNACHAL PRADESH, MANIPUR, MEGHALAYA, MIZORAM, NAGALAND, TRIPURA**	**(64)**	0.1
16	PATNA	**BIHAR, JHARKHAND**	**(0.4)**	0
17	REGION NOT INDICATED3		**(25,215)**	20

Source : Ministry of commerce & industry Department of Industrial Policy & Promotion



FINANCIAL YEAR WISE FDI INFLOW DATA :-

FIPB Route has been the most important source of FDI inflow for India and has been reported at cumulative 1,26,925 Million US$ from april 2000 to nov.2010. However, due to liberalization in economic policy of the government other routes of FDI are also becoming popular. For the corresponding period FDI inflow of reinvested earning has been 46,395 Million US$, which is about one-forth of the total FDI inflow so far. This may be attributed to government initiatives of providing special tax benefits and other facilities for reinvestment of earnings.



Trends of FDI and FII in India have been cyclical for the period under study (Diagram 1). For the financial year 2008-09 FDI growth was only 9% while for the financial year 2009-10 FDI growth was negative i.e. (-0.2%) due to global financial crisis followed by world wide recession (Table 4). Global financial crisis led to excess pressure on international liquidity which was responsible for FII's movement to south. Gradually FII are gaining confidence in Indian economy with economic recovery world wide.

S. No.	Financial Year (April – March)	FOREIGN DIRECT INVESTMENT (FDI)						Investment by FII's institutions /Investors fund (net)
		Equity		Re-investment	Other Capital	FDI inflows into India		
		FIPB Route/ RBI's Automatic Route / Acquisition Route	Equity Capital of un incorporated bodies #			Total FDI Flow	% age growth Over previous year (in US $ terms)	
1.	2000-01	2,339	61	1,350	279	4,029	--	1,847
2.	2001-02	3,904	191	1,645	390	6,130	(+) 52 %	1,505
3.	2002-03	2,574	190	1,833	438	5,035	(-) 18%	377
4.	2003-04	2,197	32	1,460	633	4,322 .	(-)14 %	10,918
5.	2004-05	3,250	528	1904,	369	6,051	(+) 40 %	8,686
6.	2005-06	5,540	435	2,760	226	8,961	(+) 48%	9,926
7.	2006-07	15,585	896	5,828	517	22,826	(+) 146 %	3,225
8.	2007-08	24,573	2,291	7,679	292	34,835	(+) 53 %	20,328
9.	2008-09	27,329	702	9,030	777	37,838	(+) 09 %	(-) 15,017
1 0.	2009-10	25,609	1,540	8,669	1,945	37,763	(-) 0.2%	29,048
11.	2010-11 up to Nov. 2010)	14,025	437	4,237	303	19,002	-	31,007
CUMULATIVE TOTAL(from April 2000 to November 2010)		126,925	7,303	46,395	6,169	186,792	-	101,850

CURRENT SCENARIO AND RECENT CHANGES :-

The FDI scenario in India is currently witnessing a gradual shift with liberalized reforms over last few years and an attractive investment climate making a positive impact on the inflow. With a steady increase in volume of FDI, India has attracted more than 125 countries till 2010 (29 countries in 1991) across the globe to invest in India making it upstage US in the list of top investment destinations in the world in the UNCTAD WIP Report.

There are certain factors which have played a pivotal role in taking India to the world. Demographics, suitsable business climate, low man power costs along with availability of talented pool of resources are some of them. India also has certain advantages at the policy level. Collaboration with a local partner is not mandatory for making investment in India, repatriation of capital is easy and low cost, licenses granted can be used to operate from any part of the country. There is also better protection of IP rights simplification of laws and introduction of a uniform Goods and Service Tax and a soon to be introduce Direct Tax Code.

Investment into India could mostly follow the automatic route with no licenses or permissions required Investment in sectors that have caps such as single brand retail, private banking, insurance, stock exchange needs to be approved by Foreign Investment Promotion Board.

CONCLUSION:

The process of economic reforms which was initiated in July 1991 to liberalize and globalize the economy had gradually opened up many sectors of its economy for the foreign investors. A large number of changes that were introduced in the country's regulatory economic policies heralded the liberalization era of the FDI policy regime in India and brought about a structural breakthrough in the volume of the FDI inflows into pthe economy maintained a fluctuating and unsteady trend during the study period. It might be of interest to note that more than 50% of the total FDI inflows received by India during the period from 2000-2010 came from Mauritius and the USA. The main reason for higher levels of investment from Mauritius was that the fact that India entered into a double taxation avoidance agreement (DTAA) with Mauritius were protected from taxation in India. Among the different sectors, the electrical and equipment had received the larger proportion followed by service sector and telecommunication sector.

RBI regional office Mumbai had attracted 35% of total FDI inflow in India during this period which indicates that Mumbai is a first preference being money capital of India .

SUGESSTIONS :

Flow of FDI in to India for its economic development is a welcome measure but it needs selectively . We must selectively attract investment in priority areas like Oil exploration, Petroleum refining & Petro chemicals , power generation, Telecommunication & tourism. Foreign investment in these sectors would reduce the need to import . It will improve our Balance of Payment.

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