



Role of Foreign Direct Investment in the Development of Real Estate and Allied Sectors in India: A Study with a Focus on Kerala State

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ABSTRACT

Foreign Direct Investment (FDI) is a non-debt financial resource and one of the vital growth drivers to faster economic development of India. The sectors that offer high growth prospects in India through FDI include residential and commercial complexes, townships, Information technology parks (IT parks), hotels & resorts, hospitals, tourism-related developments, educational institutions, special economic zones (SEZs) etc. For an emerging economy like India, its attractiveness as a preferred FDI destination would have long lasting consequences on its future growth. This paper seeks to study the flow of FDI in India, its employment generation potential, and the development of allied sectors of real estate sector.

KEYWORDS: FDI, Real estate, Employment generation, Real estate development model

1. INTRODUCTION

The real estate sector is one of the fastest growing sectors, high potential to bring about rapid economic development and it is recognized as one of the major growth drivers of developing economy. In terms of its employment generation, the housing and real estate sector in India is considered as second after agriculture. After the economic deregulation and liberalization measures initiated by the Government of India in the early 1990s, its policies have been favourable towards attracting FDI into this nation. As a result, major developers have been focusing their attention on such fields like residential housing facilities, shopping malls, and industrial establishments for last decades. At present, abundant opportunities exist for FDI in real estate related business in India. In connection with the progress of this sector, other sectors like manufacturing comprising of industries like Iron and steel, cement, paint, brick, building materials, etc. could also develop faster, thus generating employment opportunities

2. LITERATURE REVIEW

The inflow of Foreign Direct Investment to any country is beneficial. UNCTAD (1999) [1] reported that Transnational Corporations (TNCs) can complement local development efforts by (i) increasing financial resources for development; (ii) boost export competitiveness; (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. Morris, 2004 [2] In India, FDI equity flows are mainly concentrated in a few states like Maharashtra, Gujarat and Delhi. Likewise, the states with significant and large investments were Andhra Pradesh, Karnataka and Tamil Nadu. Among these states, only a few cities were involved in a significant amount of FDI. These included Ahmadabad, Bangalore, Kolkata, Chennai, Coimbatore, Goa, Hyderabad, Jamnagar, and Pune. But, Department of Industrial Policy and Promotion (DIPP), Government of India (2005) [3] has been made certain regulation to control the flow of FDI to our nation. Peng Hu (2006) [4] has studied the various determinants that influence FDI inflows into India against other countries that are attracting FDI inflows; and accordingly these determinants include economic growth, domestic demand, currency stability, government policy and labour force availability etc. Maps of India (2011) [5] report mentioned that some of the advantages of FDI in India real estate are to make the real estate sector in India more organized, to increase professionalism in the sector, to introduce advanced technology in the construction business, to create a healthy and competitive market environment for both Indian and foreign investors. Bhanagade D.B. and Shah A. Pallavi (2011) [6], have analyzed the impact of FDI on Indian Economy where they also emphasize on the investments,

sectors attracting highest FDI inflows and FDI leads to generation of employment opportunities and would lead to positive growth of gross capital formation. In India, the growth of GDP is largely influenced by FDI. R. Anitha.2012 [7] attempted to examine the various set of factors which influence the flow of FDI Identifying the causes for low inflow and suggestive remedial measures to increase the flow of FDI in India with that of other developing nations in the world. Iram Khan.(2012) [8], There are the sectors having highest attraction of FDI inflows are Service, Telecommunication, Real Estate, Construction and Computer Hardware & Software sector instead of this FDI inflows to sectors are not very much impacting GDP in India. Ms Parul Mittal; Mr. Sandeep Aggarwal (2012), [9] presented a unique understanding of FDI in the context of liberalization and the prevailing political climate. Tajul Arifin Masron and Hasssan Gholipour Fereidouni Penang, Malaysia. (2012) [10], the study demonstrated that in addition to FDI, Foreign Real Estate Investment (FREI) can also contribute to further boost economic development. According to Financial Economic magazine (2013) [12] India allows FDI in most of the sectors through automatic route. Sectors which received large FDI inflows during the nine months of the current fiscal include services, hotel and tourism, metallurgical, construction and automobiles.

3. RESEARCH METHODOLOGY

The present study is analytical and exploratory in nature and makes use of secondary data. The secondary data are collected from authentic sources like the publications of the Reserve Bank of India (RBI), World Bank, official websites of various agencies, annual reports of the major real estate players, leading business dailies, various publications of Government of India, including the World Investment Report 2012 published by UNCTAD etc. The reference period of the study covers from 2006 to 2012. In this study, an attempt has also been made to present the composition of capital inflows to India in recent years. Further, the study examined the trends and patterns in the FDI flows across different sectors and from different countries in India.

4. OBJECTIVES OF THE STUDY

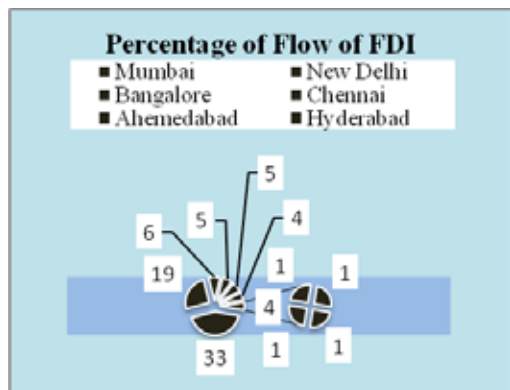
- (i) To analyze the FDI flows into India, both region-wise and sector-wise, and to identify the broad trends and patterns;
- (ii) To study the major prospects and challenges on Indian economy because of FDI flows, particularly into real estate and allied sectors, with special reference to Kerala state;
- (iii) To suggest strategies for effective utilization of FDI for faster economic development of India in general and Kerala in particular, with a focus on real estate and allied sectors, by way of employment generation, capital accumulation, and other benefits.

Table : 1:Major Sectors Attracting FDI Equity Inflows into India: A Ranking

Rank	Sectors	2007	2008	2009	2010	2011	2012	% of Total inflows(in Rs)
1	Housing and Real Estate	2121	8749	12621	11472	1127	38	7
2	Construction Activities	4424	6989	8792	10543	1125	311	7

3	Automobile	1254	2697	5212	4696	1331	266	5
4	Services Sector (Financial and Non Financial)	21047	26589	28411	17074	3403	658	21
5	Power	713	3875	4382	6088	1252	256	5
6	Petroleum and Natural Gas	401	5729	1931	1085	574	6	2
7	Computer Software & Hardware	11786	5623	7329	2857	784	96	8
8	Chemical (Excluding Fertilizers)	930	920	3427	1258	398	34	2

Figure: 1.
Flow of Foreign Funds to the States in India



(Source: Government of India (GOI) (2012). [11]. FDI Statistics, Ministry of Commerce, Industry, Department of Industrial Policy and Promotion.)

Details of flow of FDI to the various states are shown in the figure. Chandigarh, Kolkata, Bhopal and Kochi carries 1 percentage each. But the percentage of funds to Ahmadabad and Hyderabad are shown as 5 percentage. More specifically, Kerala has presently immense chance to real estate development in residential, commercial construction etc., hence significant volume of funds to be diverted for the boosting of this sector. By taking attention to this area, other related sectors will also move upward.

TABLE: 2. STATEMENT ON RBI'S REGIONAL OFFICES (WITH STATE COVERED) RECEIVED FDI EQUITY INFLOWS (from April, 2000 to December, 2012):

SL. No:	RBI's - Regional Office2	State covered	2010-11 (April - March)	2011-12 (April - March)	2012-13 (April - Dec.)	Cumulative Inflows (April '00 - Dec.12)	% to total Inflows (in terms of US\$)
1	Mumbai	Maharashtra, Dfadra & Nagar haveli, Daman & Diu	27,669 (6,097)	44,664 (9,553)	36,045 (6,628)	282,179 (61,248)	33
2	New Delhi	Delhi, Part of up and Haryana	12,184 (2,677)	37,403 (7,983)	15,969 (2,942)	167,061 (36,013)	19
3	Bangalore	Karnataka	6,133 (1,332)	7,235 (1,533)	3,994 (735)	47,886 (10,497)	6
4	Chennai	Tamil Nadu, Pondicherry	6,115 (1,352)	6,711 (1,422)	9,448 (1,734)	47,007 (10,007)	5
5	Ahmadabad	Gujarat	3,294 (724)	4,730 (1,001)	2,444 (450)	38,867 (8,607)	5
6	Hyderabad	Andhra Pradesh	5,753 (1,262)	4,039 (848)	4,655 (857)	35,256 (7,665)	4
7	Kolkata	West Bengal, Sikkim, Andaman & Nicobar islands	426 (95)	1,817 (394)	1,499 (273)	9,684 (2,145)	1
8	Chandigarh`	Chandigarh, Punjab, Haryana, Himachal Pradesh	1,892 (416)	624 (130)	182 (33)	5,492 (1,188)	1
9	Bhopal	Madhya Pradesh, Chhattisgarh	2,093 (451)	569 (123)	857 (155)	4,435 (932)	1
10	Kochi	Kerala, Lakshadweep	167 (37)	2,274 (471)	327 (61)	4,259 (900)	1
11	Panaji	Goa	1,376 (302)	181 (38)	38 (7)	3,544 (769)	0.4
12	Jaipur	Rajasthan	230 (51)	161 (33)	511 (95)	3,122 (648)	0.4
13	Bhubaneswar	Orissa	68 (15)	125 (28)	285 (52)	1,617 (341)	0.2
14	Kanpur	Uttar Pradesh, Uttranchal	514 (112)	635 (140)	125 (23)	1,572 (340)	0.2
15	Guwahati	Assam, Arunachal pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Tripura	37 (8)	5 (1)	27 (5)	348 (78)	0
16	Patna	Bihar, Jharkhand	25 (5)	123 (24)	21 (4)	170 (34)	0
17	region not indicated3		29,344 (6,447)	53,851 (11,399)	15,811 (2,893)	214,211 (46,383)	24.7

Sub Total		97,320 (21,383)	165,146 (35,121)	92,237 (16,946)	866,710 (187,804)	100.00
18	RBI'S-NRI SCHEMES (from 2000 to 2002)	0	0	0	533 (121)	0
Grand Total		97,320 (21,383)	165,146 (35,121)	92,237 (16,946)	867,243 (187,925)	-

5. RESULT OF THE STUDY

5.1 Sector Wise FDI flow

- Based on the sector wise cumulative FDI flow service sector (Banking and Non Banking) has shown as highest percentage (21 percent).
- Least for petroleum and natural gases and chemicals with 2 percentages.
- A comfortable volume (7 percent) of funds has been received to housing in real estate and construction areas.

5.2 Region Wise Cumulative FDI Analysis

- From the region wise cumulative FDI analysis from 2000 to 2012, the state of Maharashtra received highest percentage (33 percent)
- New Delhi 19 Bangalore (Bangaluru) 6, Chennai 5, Ahmadabad 5, Kolkata 4, Chandigarh 1, Bhopal 1, Kochi (Kerala and Lakshadweep) 1 percentages respectively
- Bhubaneswar and Uttar Pradesh have 0.2 percentages each. From this, the status of Kerala (Kochi) with regarded to the flow of FDI relatively very small percentage.

5.3 Overall Results

- Role of FDI is undoubtedly acted as a growth driver of India.
- FDI create high perks jobs for skilled employee in Indian service sector.
- The flow of FDI real estate related sectors is showing decreasing rate of increment.

6. ADVANTAGES OF FDI.

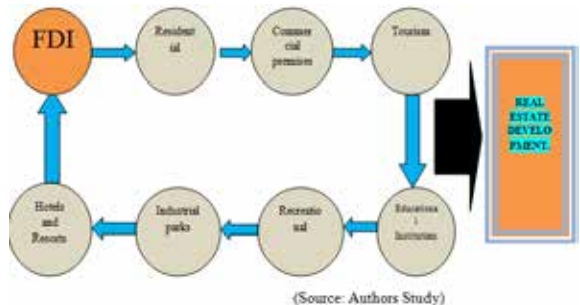
- Foreign Direct Investment increases domestic savings, transferring latest technology to the host countries, creates more employment opportunities in the country.
- The inflow of FDI to India make an immense chance to increase level of production, generate employment opportunities, which in turn helps to the development of real estate related marketing and services.
- FDI increase in employment, productivity and boost the economy to rise in the national income of a country.
- Various foreign firms are now occupying a position in the Indian market through Joint Ventures and collaboration concerns. The maximum amount of the profits gained by the foreign firms through these joint ventures is spent on the Indian market.
- The growth of the real estate sector helps tourism which in turn resulted in more demand for hotels, motels, restaurants and serviced apartments.
- The advantages are that FDI allows for an increase in local investments.
- Resources can be utilized for the best use and for the benefit of the economy.
- The country can gain income in the form of tax from the MNCs.

6.1 DISADVANTAGES OF FDI.

- Give Chance to increase Inflation, Domestic firms will suffer if they are turn non competitive in their market sector.
- Too much dependence of such investment invites risk to the host country.

- The Host country cannot enjoy the entire benefit accruing from the investment, but the foreign players set profit for the sake of their countries.

**Figure :2
Foreign Direct Investment and Real Estate Development Model.**



From the figure: 2. the flow of Foreign Direct Investment to our country benefited for the development of many real estate related sectors (figure: 2), the entire result will be necessitated to demand of FDI.

7. SUGGESTIONS.

- ✓ The Government has to relax the policy and norms to make the free flow of Foreign Direct Investment.
- ✓ Clear and transparent laws and rules are necessary to protect our nation from the threats of foreign investors and to defend the unworthy business intruders to invest in India.
- ✓ India has extensive scope for the development of real estate related sectors, the volume FDI will have to enhance depending upon the suitability.
- ✓ Various real estate related sectors (figure: 2), are fast growing. The development of such sectors in the present scenario would be attracted to make their foreign investment.
- ✓ Tourism and hotel development will boost the real estate development if Government /authority dispense with or liberalize the norms that harmful to hotel and tourism development areas.
- ✓ The volume of funds are to be increased for the development real estate related sectors in Kerala since fast development of IT hubs, commercial complexes and residential buildings in this state.

CONCLUSION.

India has extensive scope to attract FDI in to real estate and its related area due to the economic factors like stability in demand, rapid growth of population and urbanization. The government, in this scenario has to be taken the positive policy measures to reduce the burden of foreign investor's statutory clearance for the benefit of real estate sectors. As a step to encourage growth of real estate sector, the government authority or the body concerned can offer lower interest rates, liberalizing the regulatory policies, offer subsidies and tax relief etc. Moreover, the slogan to implement affordable housing for all and low-cost houses to the needy poor can be met only with efficient steps of the government to real estate housing development sector.

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