



## Trend and Growth of Sector-Wise FDI Inflows in India

### KEYWORDS

FDI, GDP and R&D.

### B. Murugesan

Ph.D. Research Scholar, Department of Economics, Pondicherry University, Puducherry- 605014

**ABSTRACT** Since the launch of Economic reforms in 1991, India has been one of the fastest growing countries in the world with the active participation of FDI in the economy. First, this study analyses the trend and growth of FDI inflows in India in the post liberalization period. Furthermore, this study examines the sector-wise FDI inflows received in India. This analysis clearly shows that the inflow of FDI has a significant effect on the economic growth of the nation. This study found that the sector-wise inflow of FDI has influenced economic growth in India. This study concludes that the government may design the FDI inflows policy in such a way where FDI inflows can be utilized as means of enhancing domestic production, saving and exports through the equitable distribution among the states by providing much freedom for the states, so, that they can attract more FDI at their own level.

### Introduction

It has already been noted that there is an increase in debate about the economic impact of Foreign Direct Investment (FDI) in developing countries like India. This debate assumes importance in view of recent changes in the composition and direction of FDI, and liberalization of policies toward FDI in India. Since the launch of Economic reforms in 1991, India has been one of the fastest growing countries in the world with the active participation of FDI in the economy. The FDI has been recognized as an important driver for economic growth and development. One of the most striking developments during the last decades is the spectacular growth of FDI in the global economic landscape. For instance, FDI inflows in India have increased from Rs. 5.126 billion in 1990-91 to Rs. 1375.48 billion in 2011-12. In this study, an attempt is made to analyse the broad trends of FDI inflows in India. Furthermore, this study focuses the sector-wise FDI inflows received in India.

### Review of Literature

In recent years, there has been an increasing amount of literature on the relationship between FDI and economic growth of many countries or regions. This section briefly discusses some previous theoretical and empirical studies based on the relationship between FDI and economic growth developed and developing countries [Robert Grosse (1988); Bernard Tail Khan Mien (1999); Bishwanath Goldar and Etsuro Ishigami (1999); Donghyun Park and Insoo Kang (2000); Nguyen Nhu Binh and Jonathan Haughton (2002); Sethi D., et. al., (2003); Ghosh D.N. (2005); Nagesh Kumar (2005); Indrani Chakraborty (2006); Dawood Ali M. Mithani, et. al., (2009); Somia Iram and Muhammad Nishat (2009); Chengang Wang and Balasubramanyam V.N. (2011)]. The survey points out the trend and growth of sector-wise FDI inflows in India are limited in number. This explains the need for the present study.

### Data and Methodology

This study analysis the trend and growth of FDI inflows in India from 1990-91 to 2011-12. Furthermore, this study examines the sector-wise FDI inflows received in India from 2006 to 2013. This study uses secondary time series data, which are collected from the Handbook of Statistics on Indian Economy by Reserve Bank of India and Ministry of Commerce and Industry, Government of India. This study describes the FDI inflows in terms of the actual value, annual growth rate and the percentage share of FDI in Gross

Domestic Product (GDP) in India.

### The Trend and Growth of FDI Inflows in India

This study analyses the trend in the growth of FDI inflows in India by using secondary annual time series data from 1990-91 to 2011-12. The data on FDI inflows into India are given in Table 1. A reading of Table 1 reveals that FDI inflows had experienced increasing trend in most of the years under review. It was just only Rs. 5.126 billion in 1990-91 when India commenced her journey of economic reforms. But after 22 years, that is, in 2011-12 FDI swelled to Rs. 1375.45 billion, showing an increase of 268.33 times over the base period. However, the inflow of FDI has not maintained a uniform increasing trend but was marked by considerable fluctuations. There was increasing trend in FDI inflows for the first eight years from 1990-91 to 1997-98 when the amount increased from Rs. 5.126 billion to Rs. 180.632 marking an increase of 35.23 times.

This was a decline in the next two years (1998-99 and 1999-00) followed by an increase in the next two years (2000-01 and 2001-02). FDI inflows experienced a slump again in the next two years (2002-03 and 2003-04). In the next five years (2004-05 to 2008-09) this was continuous increase; again it dipped in two years (2009-10 to 2010-11) and it rose in the current year (2011-12). The actual quantum of FDI inflows declined in six out of 22 years (1998-99, 1999-00, 2002-03, 2003-04, 2009-10 and 2010-11). The decline was more (four years) in the second decade (2001-2011) than in the first decade (1990-2000). The maximum inflows of FDI (Rs.1501.533 billion) occurred in the year 2008-09. The growth variation can also be explained in terms of annual growth rate. The compound annual growth rate of FDI inflows was 28.94 per cent during 1990-91 to 2011-12.

The fluctuating trends in the quantum of FDI inflows reflected in the annual growth rate in FDI inflows. The annual growth rate was negative in six years and positive in the remaining 16 years. The highest annual growth rate of 157.21 per cent was seen in the year 1992-93 while the lowest rate of -26.65 occurred in 1998-99. Overall, the varying annual growth rates confirm fluctuations in the inflows of FDI in India. These fluctuations may be attributed to the macro level changes in India and policy parameters at the national and global level coupled with the psychology and confidence levels of foreign investors. The wide variations

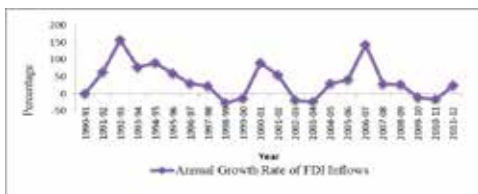
in the annual growth rates are vividly captured in Figure 1 below.

**Table 1: The Trend and Growth of FDI Inflows in India: 1990-91 to 2011-12**

Year	FDI Inflows in Billion Rupees	Annual Growth Rate of FDI Inflows ( in Per cent)	FDI Inflows as a Percentage of GDP
1990-91	5.126	-	0.034
1991-92	8.366	63.20	0.056
1992-93	21.518	157.21	0.136
1993-94	38.035	76.76	0.229
1994-95	71.862	88.93	0.406
1995-96	113.680	58.19	0.596
1996-97	146.880	29.20	0.717
1997-98	180.632	22.98	0.847
1998-99	132.488	-26.65	0.585
1999-00	114.641	-13.47	0.465
2000-01	216.353	88.72	0.845
2001-02	333.359	54.08	1.242
2002-03	271.033	-18.70	0.973
2003-04	209.653	-22.65	0.698
2004-05	272.340	29.90	0.840
2005-06	381.151	39.95	1.076
2006-07	928.833	143.69	2.399
2007-08	1192.358	28.37	2.805
2008-09	1501.531	25.93	3.400
2009-10	1328.590	-11.52	2.773
2010-11	1114.654	-16.10	2.110
2011-12	1375.480	23.40	2.442

Source: Handbook of Statistics on Indian Economy by Reserve Bank of India

**Figure 1: The Annual Growth Rate of FDI Inflows in India: 1990-91 to 2011-12**



Column (4) of Table 1 also provides the details of FDI inflows as share of GDP. It may be seen that this share was as high as 3.4 per cent in 2008-09 and as low as 0.034 per cent in 1990-91. FDI inflows constituted 2.442 per cent in 2011-12. On an average, this share was 1.17 per cent in the last 22 years. But one notable feature was that it exceeded 2 per cent in all the years after 2006-07. In these years, the presence of FDI was considerable and noticeable in India in the current context. This is because of the realisation on the part of policy makers that FDI is the life blood and an important variable for economic growth of India.

**Figure 2: The Percentage Share of FDI Inflows in GDP in India: 1990-91 to 2011-12**



**The Sector-Wise FDI Inflows Received in India**

FDI has grown considerably in its import in Indian economy. After reforms its role has changed significantly. Earlier the amount of FDI inflows was low confining to some selected sectors, but now the inflow of FDI has grown tremendously in all the sectors of the economy. Therefore, this study analyses the sector-wise inflows of FDI in India during the time period from 2006 to 2013. FDI has been found to be received in 15 sectors namely, Metallurgical Industries, Mining, Power, Petroleum & Natural Gas, Electrical Equipment, Telecommunications, Information & Broadcasting (Including Print Media), Chemicals (Other than Fertilizers), Food Processing Industries, Services Sector, Automobile Industry, Hotel & Tourism, Trading, Agriculture Services, and Construction (Infrastructure) Activities. Further, these sectors are covered with sub-sectors as in Table 2.

The Table 3 clearly explains that India's 68.52 per cent of cumulative FDI is contributed by these 15 sectors while remaining 31.48 per cent by other sectors. A total amount of Rs. 8752493.7 million of FDI was received from the world. This study finds that the largest recipient of such investment is service sector. The share of this sector in cumulative FDI flows is 22.09 per cent of the total FDI inflows. The foreign investors are mainly interested in Financial Services due to its profit generating advantage. This sector gives scope for the foreign investors to take back the profits to the country. The second recipient is Telecommunications sector which shares 5.98 per cent of total FDI. The Construction (infrastructure) activity sector is the third in the ranking with a share of FDI of 5.82 per cent. Electricals equipment sector occupied the fourth position with 5.70 per cent. Automobile industry with 4.28 per cent followed by Power with 4.09 per cent, Metallurgical industries with 3.97 per cent, Hotel & Tourism with 3.86 per cent, Food processing industries with 3.23 per cent, Trading with 2.37 per cent, Chemicals (other than fertilizers) with 2.07 per cent, Information & Broadcasting (including print media) with 1.93 per cent, Petroleum & Natural Gas with 1.68 per cent, Agriculture services with 0.99 per cent, and Mining with 0.47 per cent.

**Table 2: The Sector-Wise Received FDI (with sub-sector covered) in India**

S. No.	Sector	Sub-Sectors
1	Services Sector	Financial, Banking Services, Insurance, Non-Financial Services/Business Services, Outsourcing, Research & Development (R&D), Courier, Technical Testing and Analysis, Commodity Exchange, and Other Services
2	Telecommunications	Telecommunications, Cellular Mobile/Basic Telephone Services, and Other (Telecom)
3	Construction (Infrastructure) Activities	Roads & Highways, Warehouses and Construction (Others)
4	Electricals Equipment	Electrical Equipments
5	Automobile Industry	Automobile Industry, Passenger Cars, Auto Ancillaries/Parts, and Others (Transport)
6	Power	Power
7	Metallurgical Industries	Ferrous, Non-Ferrous, Special Alloys, and Others (Metallurgy)

8	Hotel & Tourism	Hotel & Restaurants, Tourism, and Other (Hotel & Tourism)
9	Food Processing Industries	Food Products, Marine Products, and Others (Food Products)
10	Trading	Trading (For Exports), Trading (Wholesale Cash & Carry), E-Commerce, and Trading (Misc.)
11	Chemicals(other than Fertilizers)	Chemicals, Paints &Varnishes, and Industrial Gases

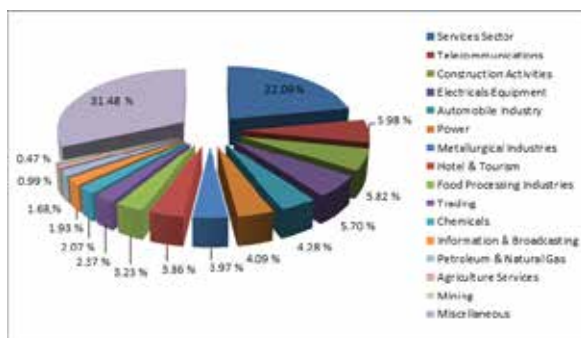
12	Information & Broadcasting (Including Print Media)	Radio Broadcasting, Electronic Media, and Films & Advertisement
13	Petroleum & Natural Gas	Oil Refinery, Oil Exploration, and Others (Fuels)
14	Agriculture Services	Horticulture, Hybrid Seeds & Plantation, Floriculture, and Others (Agriculture Services)
15	Mining	Mining Services and Mining for Coal

**Table 3: The Sector-Wise FDI Inflows Received in India: 2006-2013 (Rs. Million)**

Year	2006	2007	2008	2009	2010	2011	2012	2013	Cumulative FDI inflows	Percentage	Rank
Services Sector	178584.74	339475.12	339475.12	279182.54	168723.89	238886.13	252619.24	136161.47	1933108.3	22.09	1
Telecommunications	43541.09	43541.5	115954.81	124438.67	69182.67	104926.19	4293.12	17700.03	523578.08	5.98	2
Construction Activities	NA	51924.4	103623.52	117478.98	71074.4	84982.5	11040.66	69207.87	509332.33	5.82	3
Electricals Equipment	92494.57	103344.6	85205.73	38076.31	53583.06	62829.76	51185.8	11909.74	498629.57	5.70	4
Automobile Industry	NA	14895	48094.92	64701.68	57474.84	39266.69	59797.67	90020.28	374251.08	4.28	5
Power	7230.52	10187.67	54612.13	79771.86	55116.69	78393.75	39058.98	33770.79	358142.39	4.09	6
Metallurgical Industries	7992.77	20298.6	62668.48	22787.35	47929.25	74859.21	84476.15	26752.2	347764.01	3.97	7
Hotel & Tourism	8174.86	10581.23	22729.27	28715.75	22693.57	41933.66	180966.16	22320.33	338114.83	3.86	8
Food Processing Industries	2463.12	2836.83	6360.28	9661.89	9751.02	8648.41	17158.98	225963.29	282843.82	3.23	9
Trading	3860.97	23141.85	27698.55	25282.05	25324.57	25931.22	35102.58	40846.89	207188.68	2.37	10
Chemicals	17953.63	10190.2	26360.71	22078.26	20548.91	30256.08	17801.47	35785.86	180975.12	2.07	11
Information & Broadcasting	NA	8841.88	22743.28	37972.82	18811.58	18109.82	28950.72	33225.19	168655.29	1.93	12
Petroleum & Natural Gas	2710.6	13937.68	56415.76	18488.72	27063.14	9869.54	12012.66	6853.28	147351.38	1.68	13
Agriculture Services	NA	4869.26	442.22	63377.29	2289.1	2387.01	2407.35	10544.22	86316.45	0.99	14
Mining	146.19	16681.16	1754.7	8216.96	4451.42	6307.71	2162.87	1521.84	41242.85	0.47	15
Miscellaneous	138419.62	122608.65	423115.26	369567.4	306131.5	446035.65	416880	532241.53	2754999.6	31.48	
Total	503572.68	797355.63	1397254.7	1309798.5	960149.61	1273623.3	1215914.4	1294824.8	8752493.7	100.000	

Source: Ministry of Commerce and Industry, Government of India

**Figure 3: The Sector-Wise FDI Inflows Received in India: 2006-2013**



The figure 3 explains that India is getting more FDI inflows from 2006 to 2013 yet, never leading to the equal devel-

opment of all the sectors in the economy. Thus the sector-wise inflow of FDI in India shows a varying trend but acts as a catalyst for growth, quality maintenance and development of industries in India to a greater and larger extent. The technological transfer is also seen as one of the major changes apart from the rise in operational efficiency, managerial efficiency, employment opportunities and infrastructure development.

**Conclusion**

This study has elaborately analysed the trend and growth of FDI inflows in India during the study period from 1990-91 to 2011-12. To be more specific, this study describes the FDI inflows in terms of the actual value, annual growth rate, compound annual growth rate and the percentage share of FDI in GDP in India. This analysis clearly shows that the inflow of FDI has a significant effect on the economic growth of the nation. Furthermore, this study has examined the sector-wise FDI inflows received in India from 2006 to 2013. This study found that the sector-wise inflow of FDI has influenced economic growth in India. The following sectors have received more FDI inflows in India

such as, Services Sector, Telecommunications, Construction Activities, Electricals Equipment, Automobile Industry, Power, Metallurgical Industries, Hotel & Tourism, Food Processing Industries, Trading, Chemicals, Information & Broadcasting, Petroleum & Natural Gas, Agriculture Services and Mining. This study concludes that the government may design the FDI inflows policy in such a way where FDI inflows can be utilized as means of enhancing domestic production, saving and exports through the equitable distribution among the states by providing much freedom for the states, so, that they can attract more FDI inflows at their own level. FDI inflows can help to raise the output, productivity and trade at the sectoral level of the Indian economy.

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