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FOREIGN DIRECT INVESTMENT IN INDIA – A STUDY

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ABSTRACT Foreign Direct Investment (FDI) plays a very important role in the development of the nation. It is very much vital in the case of underdeveloped and developing countries. A typical characteristic of these developing and underdeveloped economies is the fact that these economies do not have the needed level of savings and income in order to meet the required level of investment needed to sustain the growth of the economy. In such cases, foreign direct investment plays an important role of bridging the gap between the available resources or funds and the required resources or funds. It plays an important role in the long-term development of a country not only as a source of capital but also for enhancing competitiveness of the domestic economy through transfer of technology, strengthening infrastructure, raising productivity and generating new employment opportunities. In India, FDI is considered as a developmental tool, which helps in achieving self-reliance in various sectors and in overall development of the economy. India after liberalizing and globalizing the economy to the outside world in 1991, there was a massive increase in the flow of foreign direct investment. The paper tries 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.

KEYWORDS : Determining factors, Foreign Direct Investment, Pre & Post Liberalization period.

Introduction

Foreign direct investment (FDI) in India has played an important role in the development of the Indian economy. FDI in India has - in a lot of ways - enabled India to achieve a certain degree of financial stability, growth and development. India is one of the primary destinations of private equity and venture capital funding through the FDI route. As high as 60 per cent of the FDI that flows into India is through the PE route. FDI boosts the country's economy making it a globally competitive platform providing access to high quality goods and services. Several international surveys place India among the top three most sought after destinations for foreign direct investment and growth. The UNCTD in its reporting placed India to be among the most attractive destinations for international investors during the period 2010-12. Also India remains the second most preferred destination for American, European and Japanese investors. India has continually sought to attract FDI from the world's major investors. In 1998 and 1999, the Indian national government announced a number of reforms designed to encourage FDI and present a favourable scenario for investors. FDI investments are permitted through financial collaborations, through private equity or preferential allotments, by way of capital markets through Euro issues, and in joint ventures. FDI is not permitted in the arms, nuclear, railway, coal & lignite or mining industries. Currently, FDI is allowed in financial services, including the growing credit card business. These services include the non – banking financial services sector. Foreign investors can buy up to 40 per cent of the equity in private banks, although there is condition that stipulates that these banks must be multilateral financial organizations.

Analysis

Sector-wise FDI Inflows

The investment channels of FDI in India reveal that only 10 sectors fully made of the FDI in the country as mentioned in Table – 1.

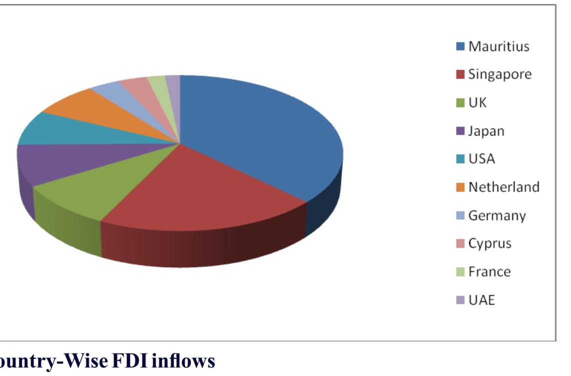
Table - 1 Sector-wise FDI Inflows (2015-16)

SECTOR	FDI Inflows	Percentage of Total FDI Inflows
Services Sector	258,354.22	17.60
Construction Development	113,936.35	8.38
Computer Software & hardware	112,183.92	7.28
Telecommunications	92,728.71	6.37
Automobile Industry	81,394.21	5.22
Drugs & Pharmaceuticals	70,097.36	4.80
Chemicals	59,555.37	4.12
Trading	68,836.54	4.12
Power	52,613.34	3.63
Hotel & Tourism	49,709.68	3.20

SOURCE: DIPP, Federal Ministry of Commerce and Industry, Government of India

The major share of FDI went to the service sector, representing 17.60% of the total FDI inflow amounting to Rs. 258354.22 crores, followed by Construction development (8.38%) and telecommunication sector (7.28%) which occupied the second and third positions.

Sector-wise FDI Inflows



Country-Wise FDI inflows

Table – 2 presents the country wise FDI inflows from April 2000 to March 2015.

Table - 2 Country wise FDI inflows (April 2000 to March 2016) (In Rs. Crores)

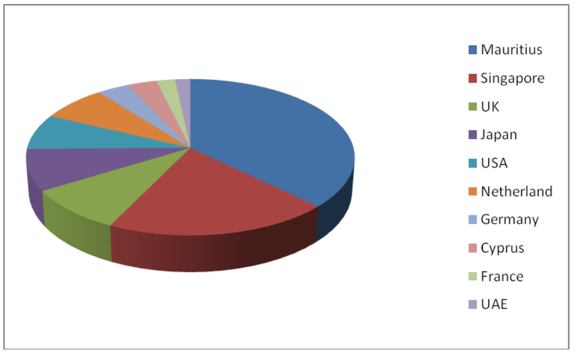
SECTOR	FDI Inflows	PERCENT OF TOTAL FDI INFLOWS (In terms of Rs)
Mauritius	480,363.08	33.24
Singapore	256,666.81	15.90
UK	115,591.93	8.01
Japan	110,671.35	7.27
USA	94,574.89	6.22
Netherland	94,533.14	6.00
Germany	44,870.10	2.99
Cyprus	42,680.76	2.96
France	26,525.03	1.77
UAE	21,648.17	1.40

SOURCE: DIPP, Federal Ministry of Commerce and Industry, Government of India

The table presents the amount of money invested by the top 10 countries. Mauritius ranked the highest in the study period. It had made substantial share of an average of 33.24 per cent of total FDI of 10 countries of the study. This table also shows that the inflow from this country was Rs. 480363.08 crs for the period from April 2015 to January 2016. Singapore stood in the second position by contributing

15.90%, UK stood in the third position by contributing 8.01 %, Japan stood in the fourth position by contributing 7.27% and USA stood fifth position by contributing 6.22 %. Germany contributing 2.99%, France and UAE are contributing 1.77 % and 1.40 %.

Country-Wise FDI inflows



Sector-wise Technology Transfer Approvals

Table-3 exhibits that the sector wise technology transfers approvals from 1991 to 2016.

Table - 3 Sector Wise Technology Transfer Approvals (1991-2016)

SECTOR	No. Technical Collaborations approved	% of total Technical Collaborations approved
Electrical Equipments (Incl. computer software & electronics)	1255	15.80
Chemicals (other than fertilizers)	886	11.16
Industrial Machinery	869	10.94
Transportation Industry	742	9.34
Misc. Mach. Engineering Industry	442	5.57
Other sectors	3747	47.19
Total all sectors	7941	100.00

SOURCE: DIPP, Federal Ministry of Commerce and Industry, Government of India

Table-4 exhibits that the sector wise technology transfers approvals from 1991 to 2015. The sector like Electrical Equipments (Incl. computer software & electronics), Chemicals (other than fertilizers) has more approvals about 15.8 per cent and 11.2 per cent respectively. It shows like good temperament of these sectors. Whereas other sectors has contributed nearly about 47.19 per cent.

Trends of FDI in India

India has continually sought to attract FDI from the world's major investors. Indian national government announced a number of reforms designed to encourage FDI and present a favourable scenario for investors. The trend of FDI inflow in India has presented in the Table-4.

Table-4 Trends of FDI in India

Year	Rs. in Crores
2008-09	1,42,829
2009-10	1,23,120
2010-11	97,320
2011-12	1,65,146
2012-13	1,21,907
2013-14	1,47,518
2014-15	1,89,107
2015-16	2,62,322

SOURCE: DIPP, Federal Ministry of Commerce and Industry, Government of India

It could be observed from the table that the maximum FDI inflow recorded in the year 2015-16 and 2014-15 amounted to Rs. 262322 and Rs. 189107 respectively. It is also found that during 2010-11 FDI inflow was about 973203 and it was like lowest one compared to other years FDI inflow.

Table - 6 RBI'S REGIONAL OFFICES (WITH STATE COVERED) RECEIVED FDI EQUITY INFLOWS *(From April, 2000 To* March, *2016):*

S. NO	RBI Regional office	State Covered	2000-2016	Percentage of inflows
1	Mumbai	Maharashtra	82629	29
2	New Delhi	Delhi	62154	22
3	Chennai	Tamil Nadu	21542	7
4	Bangalore	Karnataka	20241	7
5	Ahmedabad	Gujaraj	13285	5
6	Hyderabad	Andhra Pradesh	11571	4
7	Kolkata	West Bengal	3936	1
8	Chandigarh	Chandigarh	1358	0.5
9	Jaipur	Rajasthan	1315	0.5
10	Kochi	Kerala	1301	0.5

SOURCE: DIPP, Federal Ministry of Commerce and Industry, Government of India

Table-6 shows region-wise FDI equity inflows from 2000-16 in terms of ` Crore. Table shows that Mumbai has registered highest FDI inflow (82629) amounting to 29% of total inflow received in last 16 years. New Delhi is the second highest region for FDI inflow (62154 Crore) with 22% of total inflows received in the same period. This is due to good scenario infrastructure and better quality of life provided in these cities. Like other regions Chennai (21542 Crore), Bangalore (20241 Crore), Ahmedabad (13285 Crore), Hyderabad (11571 Crore) have also recorded FDI with 7%, 7%, 5% and 4% of total FDI in the country respectively. Bangalore is the primary destination for property investment and the city has riding high on the Information Technology (IT). Other regions like Kolkata (3936 Crore), Chandigarh (1358 Crore), Jaipur (1315 Crore) and Bhopal (1301 Crore) have been able to attract very less FDI because they lack in infrastructure and information technology (IT) developments. Sectors like service, construction developments, telecommunications and computer software & hardware have been registering highest FDI inflows in India. Therefore, Mumbai, New Delhi, Bangalore and Chennai are the favourite destinations for FDI in India.

Conclusion

Foreign Direct Investments plays a crucial role for an accelerated economic growth. In India, past the 1991 economic reforms, the regulatory environment in terms of FDI has been consistently eased to make it more and more investor-friendly and to supplement domestic capital, technology and skills. India has to offer economic opportunities which are more attractive than those of others competing for the same FDI. FDI probably one of the most vital factors leading to the globalization of the international economy. India has to offer economic opportunities which are more attractive than those of others competing for the same FDI. Foreign Direct Investment, or FDI, is a measure of foreign ownership of domestic productive assets such as factories, land and organizations. Foreign direct investments have become the major economic driver of globalization, accounting for over head of all cross-border investments. To sum up, India has only recently begun to attract global capital and given the size of the economy, and its perceived high growth potential, it will remain an attractive investment in general and FDI in particular is seen to be supportive. Hence, the government must continue the peace of reforms to make India more and more attractive for make in India.

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