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# A Study On Investment Pattern of Foreign Direct Investment in India

Management

**KEYWORDS :** Investment pattern – FDI – Economic growth- service sector-developing countries.

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## ABSTRACT

*Foreign Direct Investment is a direct investment into production or business in a country by an individual or company of another country, either by buying a company or by expanding operations of an existing business in a country. Foreign direct investment is one of the major sources which increase the economic growth of the country especially for the developing countries. In this regard the present study has been conducted to study about the investment pattern of foreign direct investment in India during the years 2012-2013, and 2013-2014 thereby attracting highest FDI in sector such as service sector. The study was based on secondary data. The tool mainly used was correlation analysis. The study reveals that the investment pattern of foreign direct investment in India increases the capitalization opportunities, job opportunities and also development of countries economy by the equity inflows. Findings of study reveal that the service sector was consistently receiving decent portion of inflows through foreign direct investment over the stated period.*

### Introduction
Foreign direct investment (FDI) is a direct investment into production or business in a country by an individual or company of some other country, it can also by buying a company in the target country or by expanding operations of an existing business in that particular country. Foreign direct investment is in distinction to portfolio investment which is a passive investment in the securities of another country such as stocks and bonds.

Foreign direct investment is of growing importance to global economic expansion. This is chiefly essential for developing and emerging various market countries. Investment from investors in developed areas like the European Union and the U.S. provide funding and expertise to help smaller companies in these emerging markets to expand and increase international sales. In 2012, these emerging markets became the greatest beneficiary of FDI. Inflows exceeded those to developed countries by $130 billion.

### What exactly is FDI?
The International Monetary Fund defines FDI as when one individual or business owns 10% or more of a foreign institutional capital. Each financial operation afterwards is considered by the IMF as an additional direct investment. If an investor owns less than 10%, it is considered as nothing more than an addition to his/her stock portfolio.

With only a 10% ownership, the investor may or may not have the controlling interest in the foreign business. However, even with just 10%, the investor usually has significant influence on the company's day- to-day operations, policies and procedure and management. For this reason, the majority governmental agencies would like to keep tabs on who is investing in their country's businesses.

### Thoughts on FDI
FDI can be used by international investor on together a micro and macroeconomic level. Countries with sustainable and upward levels of foreign direct investment are preferable, whereas companies investing abroad can often increase from bigger growth rates.

FDI has a lot of drawbacks, despite its overall efficiency in promoting growth. On a macro level, it can cause trouble for a country's domestic labour markets and drain capital in the long-run. On a micro level, the investments have a number of risks that should be carefully considered.

### Key Benefits of FDI
- **Economic Growth:** Countries receiving foreign direct investment often experience higher economic growth by opening it up to new markets, as seen in many emerging economies.
- **Job Creation & Employment:** Most foreign direct investment is designed to create new businesses in the host country, which usually translates to job creation and higher wages.
- **Technology Transfer:** FDI often introduces world-class technologies and technical expertise to developing countries.

### Drawbacks of FDI
Too much foreign ownership of companies can be a concern, especially in industries that are strategically important. Second, sophisticated foreign investors can use their skills to strip the company of its value without adding any. They can sell off unprofitable portions of the company to local, less sophisticated investors. Or, they can borrow against the company's collateral locally, and lend the funds back to the parent company. (Source: IMF, Finance and Development Magazine, Prakash Loungani and Assaf Razin, How Beneficial Is Foreign Direct Investment for Developing Countries? June 2001)

- **Strategic Industries:** Many countries protect certain strategic industries, like defense, from foreign direct investment in order to maintain control from foreign entities.
- **Long-term Capital Movement:** Some critics argue that once a foreign investment becomes profitable, capital really begins to flow out of the host country and to the investor's country.
- **Disruption of Local Industry:** There is some concern that foreign direct investment may disrupt local industry and economies by attracting the best workers and creating income disparity

For international investors, seeking out investments in countries with sustainable and growing foreign direct investment is a popular strategy. These levels can be found on websites like the United Nations Conference on Trade and Development (UNCTAD).

### Foreign Direct Investment in India
Foreign investment was introduced in 1991 under Foreign Exchange Management Act (FEMA), driven by then finance minister Manmohan Singh. As Manmohan Singh consequently became the prime minister, this has been one of his top political troubles, still in the current times. India not permitted overseas corporate bodies (OCB) to invest in our country. India imposes cap on equity holding by foreign investors in a variety of sectors, current FDI in aviation and insurance sectors is restricted to a maximum of 49%.

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Starting from a baseline of less than $1 billion in 1990, a UNCTAD survey projected India as the second most vital FDI destination (after China) for transnational corporations during the year 2010 to 2012. As per the data, the sectors that attracted superior inflows were firstly services sector, telecommunication sectors, construction activities and computer software and hardware sectors. Mauritius, Singapore, UK and US were among the primary sources of FDI. Based on UNCTAD data FDI flows were $10.4 billion, a drop of 43% from the first half of the last year.

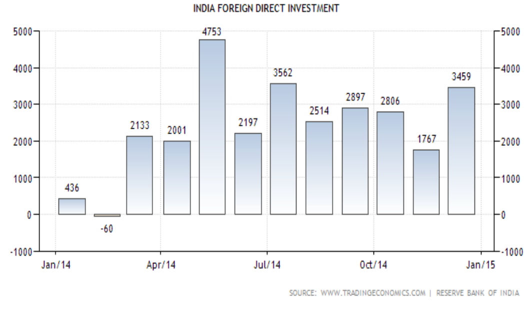
India is the second most populous country and the largest democracy in the world. Undoubtedly, India has emerged as one of the most vibrant and dynamic of the developing economics. Investment in a country by Individuals and organization from other countries is an significant aspect of international finance. This kind of International finance may take the form of direct investment (creation of productive facilities) or portfolio investment (acquisition of securities). FDI benefits domestic industry as well as the Indian consumers by providing opportunities for technological up progression, access to universal managerial skills and practices, optimal utilization of human and natural resources, creating Indian industry internationally aggressive, opening up export markets, providing backward and forward linkage and access to International quality goods and service.

Towards this conclusion, The FDI policy has been constantly reviewed and essential steps have been taken to make India a most favourable destination for FDI.

**There are a number of excellent reasons for investing in India.**

- Third largest reservoir of skilled manpower in the world.
- Huge and diversified infrastructure spread from corner to corner the country.
- Abundance of natural resources and self sufficiency in agriculture.
- Package of fiscal incentives for foreign investors.
- Enormous and quick growing consumer market.
- Democratic government with independent judiciary.
- English as the prefer business language.
- Developed commercial banking network of over 63,000 branches supported by a number of national and state level finance institution.
- Vibrant capital market consisting of 22 stock exchanges with over 9400 listed companies.
- Congenial foreign investment environment that provides freedom of entry, investment, location, choice of technology, import and export.
- Easy access to markets of Bangladesh, Nepal, Bhutan, Maldives, Sri Lanka and Pakistan.

**Table:1 India foreign direct investment during the year JAN 2014 – JAN 2015**




Source: www.Tradingeconomics.com / Reserve Bank of India

Foreign Direct Investment in India increased to 3459 USD Million in December of 2014 from 1767 USD Million in November of 2014. Foreign Direct Investment in India averaged 1027.46 USD Million from 1995 until 2014, reaching an all time high of 5670 USD Million in February of 2008 and a record low of -60 USD Million in February of 2014. Foreign Direct Investment in India is reported by the Reserve Bank of India.

Indian government taking steps to improve the ease of doing business and attracting foreign investments, FDI inflows into the services sector grew by 44 per cent to $2.29 billion in the April-December period of the current fiscal. The sector, which includes banking, insurance, outsourcing, R&D, courier and technology testing, had received foreign direct investment (FDI) worth $1.59 billion during April-December, 2013-14, according to the Department of Industrial Policy and Promotion (DIPP).

The government has announced a series of steps such as fixing timelines for approvals to improve ease of doing business in the country and to attract domestic and foreign investments. In step with growth in FDI in important sector like services, overall foreign inflows in the country rose by 27 per cent to $21.04 billion during the first nine months of 2014-15. The amount was $16.56 billion in the year-ago period.

The services sector contributes over 60 per cent to India's GDP. In 2012-13, foreign investment in services had fallen to $4.83 billion from $5.21 billion in 2011-12.FDI in the sector accounts for 18 per cent of the country's total foreign investment inflows. The government is focusing on enhancing services exports. It is organizing a global services exhibition in April. The other sectors where inflows have recorded growth are: telecom ($2.67 billion), automobile ($1.58 billion) and power ($576 million).Government has raised the FDI cap in insurance sector to 49 per cent from 26 per cent. The policy was also relaxed in other sectors such as defence, railways and medical devices.

Foreign investments are considered crucial for India, which needs around $1 trillion over five years to 2017 for overhauling its infrastructure sector such as ports, airports and highways to boost growth. A strong inflow of foreign investments will help improve the country's balance of payments situation and strengthen the rupee value against other global currencies, especially the US dollar.

**Procedure for receiving FDI in an Indian company:**
An Indian company may obtain foreign direct investment under the two routes as given under

- **Automatic route:** FDI is approved under the automatic route without prior approval either of the government or the Reserve Bank of India in all activities / sectors as specified in the consolidated FDI policy, issued by the government of India from time to time.
- **Government route:** FDI in activities not covered under the automatic route prior approval of the government which are considered by the Foreign Investment Promotion Board (FIPB), Department Of Economics Affairs, Ministry of finance. Application can be made in form FC-IL, which be able to be downloaded from http://www.dipp.gov.i. Plain paper applications carrying all relevant details are also accepted by the government. No fee is payable for this purpose.

**Need for the study**
FDI is a predominant and vital factor in influencing the contemporary process of global economic development. It helps in transferring of financial resources, technology and innovation and improved management techniques along with raising productivity. FDI report 2014 also has two special features that the first on the motives that attract an investor to a definite loca-

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tion, and the second on how the demand for cloud storage and data back up amongst consumer user are boosting FDI into the communication sector.

In the changing economic scenario India is a major developing country needs lots of funds to finance its capital requirement, this situation influence India to capitalize the FDI opportunity for development. Hence, this study investigates sector-wise FDI inflows pattern and find the relationship among the sectors.

**Objectives of the study**

- To study pattern of FDI equity inflows during 2012-13 to 2014-15 by highest attracting sectors.
- To evaluate the significant relationship amongst selected sectors on FDI equity inflows.

**Review of Literature**

**Mohan Guruswamy, Kamal Sharma (2005**) discuss the retail industry in India in their study on FDI in the retail sector. They focus on the "labour displacing" outcome on employment due to FDI in the retail sector. The primary task of the Government in India is still to give livelihood and not create so called efficiencies of scale by creating redundancies. **Vinoj Abraham and Pradhan** (2005) study the patterns and motivations behind the overseas mergers and acquisitions by Indian enterprises. It is establish that the foremost motivation of Indian firm's overseas acquisitions have been to access international markets and beat constraints from limited home market development**. Peng Hu** (2006) analyses a variety of determinants that manipulate FDI inflows to India. Analyzing the fresh conclusion it is interesting to note that India has some competitive gain in attracting FDI inflows, like a large pool of high quality labour force. In consequence this study argues that India is an ideal investment destination for foreign investors**. Francoise Hay** (2006) finds that the FDI from the Indian firms were principally addressed to the developing countries and Russia, however, the share of the industrialized countries was on the rise and the manufacturing and non-financial sectors accounted for the bulk of it**. Chandana Chakraborty and Peter Nunnenkamp** (2006) evaluate the growth implication of FDI in India. They discover that the growth special effects of FDI vary widely across sectors and only transitory effects of FDI on output in the services sector which paying attention the bulk of FDI in the post-reform period.

**Methodology**

The study is based on the secondary data collected from the RBI website. The FDI equity inflows from 2012 to 2014 have been collected for analysis.

**Analysis and Discussion**

The following table illustrates the pattern of sector-wise FDI equity inflows during 2012-13 to 2014-15.

**Table 1: Sector-wise FDI Inflows Pattern**

| SECTORS | 2012-13 | | 2013-14 | | 2014-15 | |
|---|---|---|---|---|---|---|
| Services sector | 26306 | 31.91% | 13294 | 19.12% | 3445 | 15.40% |
| Construction development | 7248 | 8.79% | 7508 | 10.80% | 1317 | 5.89% |
| Telecommunications | 1654 | 2.01% | 7987 | 11.48% | 8966 | 40.08% |
| Computer software & hardware | 2656 | 3.22% | 6896 | 9.92% | 668 | 2.99% |
| Drugs & pharmaceuticals | 6011 | 7.29% | 7191 | 10.34% | 4031 | 18.02% |
| Automobile industry | 8384 | 10.17% | 9027 | 12.98% | 436 | 1.95% |
| Chemicals (other than fertilizers) | 1596 | 1.94% | 4738 | 6.81% | 563 | 2.52% |
| Power | 2923 | 3.55% | 6519 | 9.37% | 876 | 3.92% |
| Metallurgical industries | 7878 | 9.56% | 3436 | 4.94% | 690 | 3.08% |
| Hotel & tourism | 17777 | 21.57% | 2949 | 4.24% | 1378 | 6.16% |
| TOTAL FDI INFLOWS | 82433 | 100.00% | 69545 | 100.00% | 22370 | 100.00% |

**Source: Calculation based on secondary data**

The resultant table depicts that in the year 2012-13, service sector had highly attracted 31.91% of FDI inflows to India, followed by hotel & tourism 21.57%, automobile industry 10.17%. 2013-14 history states that service sector had attracted 19.12% FDI inflows, automobile industry had attracted 12.98% and telecommunication industry had attracted 11.48%. In the year 2014-15 scenario states that telecommunication industry had attracted the maximum of 40.08% FDI inflows followed by drugs & pharmaceuticals industry 18.02% and service sector 15.40%. According to the total FDI inflows received during the last three years, the volume of inflows indicates down trend. The following table describes correlation analysis between selected sectors during the study period.

**Hypothesis:** Is FDI inflows has any significant relationship with other industries.

**Table 2: Sector-wise Correlation among FDI Inflows**

| | | SS | CD | TE | HS | DP | AU | CH | PO | MI | HT |
|---|---|---|---|---|---|---|---|---|---|---|---|
| SS | r | 1 | 0.802 | -0.949 | 0.236 | 0.556 | 0.783 | 0.159 | 0.283 | .998* | 0.937 |
| | p | | 0.408 | 0.204 | 0.848 | 0.625 | 0.427 | 0.898 | 0.817 | 0.035 | 0.227 |
| CD | r | | 1 | -0.573 | 0.77 | 0.942 | 1.000* | 0.718 | 0.8 | 0.767 | 0.542 |
| | p | | | 0.612 | 0.441 | 0.217 | 0.019 | 0.49 | 0.41 | 0.443 | 0.635 |
| TE | r | | | 1 | 0.082 | -0.266 | -0.548 | 0.159 | 0.034 | -0.965 | -.999* |
| | p | | | | 0.948 | 0.829 | 0.631 | 0.898 | 0.979 | 0.168 | 0.023 |
| HS | r | | | | 1 | 0.939 | 0.789 | .997* | .999* | 0.181 | -0.119 |
| | p | | | | | 0.223 | 0.422 | 0.05 | 0.031 | 0.884 | 0.924 |
| DP | r | | | | | 1 | 0.952 | 0.909 | 0.955 | 0.508 | 0.23 |
| | p | | | | | | 0.198 | 0.273 | 0.192 | 0.66 | 0.852 |
| AU | r | | | | | | 1 | 0.738 | 0.818 | 0.748 | 0.517 |
| | p | | | | | | | 0.471 | 0.391 | 0.462 | 0.654 |
| CH | r | | | | | | | 1 | 0.992 | 0.104 | -0.196 |
| | p | | | | | | | | 0.081 | 0.934 | 0.875 |
| PO | r | | | | | | | | 1 | 0.229 | -0.07 |
| | p | | | | | | | | | 0.853 | 0.955 |
| MI | r | | | | | | | | | 1 | 0.955 |
| | p | | | | | | | | | | 0.192 |
| HT | r | | | | | | | | | | 1 |
| | p | | | | | | | | | | |

**Source: Calculation based on secondary data**

FDI inflows of Service Sector industry had significant relationship with Metallurgical industry; Construction Development (infrastructure) industry had relationship with automobile industry. FDI inflows of Telecommunication industry had found significant relationship with Hotel & Tourism industry. Similarly, FDI inflows of Hardware & Software industry had found significant relationship with Chemical industry and Power industry.

**CONCLUSION**

Foreign Director Investment is a best tool to attract other countries for capitalizing the opportunity to meet the demand. Thereby it increases the job opportunity and development of state or country economy. The study result reveals that service sector has consistently receiving decent portion of inflows through FDI. Correlation analysis states that few sectors had found significant relationship with other sectors. Future study can investigate more on the impact of interrelationship among sectors.

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