Research Paper Economics

Foreign Direct Investment: A Study on India

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ABSTRACT

India is a country that has been able to restore investor confidence in its markets, even during the toughest of times. Increase in capital flows, foreign direct investments (FDI) and overseas entities' participation reflect the fact that Indian markets have fared well in recent times. Moreover, foreign companies are viewing the South-Asian nation as a strategic hub for their operations and investments owing to inve stor-friendly policy environment, positive eco-system and huge potential for growth. Indian Incorporation's increasing presence over the global canvas and Indian Government's consistent support to the FDI space has facilitated remarkable developments as India's strength is in its information base. This paper brings out an analysis on the foreign direct investments year-wise total inflows, sector wise inflows, top 10 contributing countries to India's investment inflows and total FDI outflows, to make an assessment on growth rate, identifying the major setbacks and loopholes that allows foreign institutions to enter our nation.

KEYWORDS FDI, FDI inflows, FDI outflows, Growth, International Finance

INTRODUCTION TO THE STUDY /FOREIGN DIRECT INVESTMENTS

FDI is nothing but "an investment made by a company or entity based in one country, into a company or entity based in another country". Foreign direct investments differ substantially from indirect investments such as portfolio flows, wherein overseas institutions invest in equities listed on a nation's stock exchange. Entities making direct investments have a significant degree of influence and control over the company into which the investment is made.

DEFINITION

According to the International Monetary Fund , foreign direct investment, commonly known as FDI, "... refers to an investment made to acquire lasting or long-term interest in enterprises operating outside of the economy of the investor."

HISTORICAL INSIGHT

According to history the United States was the leader in the FDI activity dating back as far as the end of World War II. Businesses from other nations have taken up the flag of FDI, including many who were not in a financial position to do so just a few years ago.

The practice has grown significantly in the last couple of decades, to the point that FDI has generated quite a bit of opposition from groups such as labor unions. These organizations have expressed concern that investing at such a level in another country eliminates jobs. Legislation was introduced in the early 1970s that would have put an end to the tax incentives of FDI. But members of the Nixon administration, Congress and Business Interests rallied to make sure that this atta ck on their expansion plans was not successful. One key to understanding FDI is to get a mental picture of the global scale of corporations able to make such investment. A carefully planned FDI can provide a huge new market for the company, perhaps introducing products and services to an area where they have never been available. Not only that, but such an investment may also be more profitable if construction costs and labor costs are less in the host country.

FDI growth has been a key factor in the "international" nature of business that many are familiar with in the 21st century. This growth has been facilitated by changes in regulations both in the originating country and in the country where the new installation is to be built. Corporations from some of the countries that lead the world's economy have found fertile soil for FDI in nations where commercial development was limited, if it existed at all. The dollars invested in such developing-country projects increased 40 times over in less than 30 years.

FOREIGN DIRECT INVESTMENT IN INDIA

Foreign investment was introduced in 1991 under Foreign Exchange Management Act (FEMA), driven by Finance Minister Manmoh an Singh. As Singh subsequently became a Prime Minister, this has been one of his top political problems, even in the 2012 election. India disallowed overseas corporate bodies (OCB) to invest in India. Starting from a baseline of less than $1 billion in 1990, a recent UNCTAD survey projected India as the second most important FDI destination (after China) for transnational corporations during 2010–2012. As per the data, the sectors that attracted higher inflows were services, telecommunication, construction activities and computer software and hardware. Mauritius, Singapore, US and UK were among the leading 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.

METHODS

The foreign direct investor may acquire voting power of an enterprise in an economy through any of the following methods:

- by incorporating a wholly owned subsidiary or company anywhere
- by acquiring shares in an associated enterprise
- through a merger or an acquisition of an unrelated enterprise
- participating in an equity joint venture with another investor or enterprise

COUNTRIES SENDING FDI TO INDIA ARE:

- Mauritius
- U.K
- U.S.A
- France
- Malaysia
- Singapore
- Japan
- Germany
- Netherlands

SECTORS IN INDIA ATTRACTING FDI FROM FOREIGN COUNTRIES ARE:

- Telecommunications that includes services of cellular mo-

bile, radio paging, and basic telephone
- Chemicals
- Metallurgical industries
- Food processing industries
- Pharmaceuticals and drugs
- Fuels
- Electrical equipment that includes electronics and computer software
- Services sector that includes financial and non-financial

FOREIGN DIRECT INVESTMENT POLICY

India's foreign investment policy has been formulated with a view to inviting and encouraging FDI into India. The process of regulation and approval has been substantially liberalised. FDI under automatic route is permitte d in most activities/sectors, except a few where prior approval of the Government is required. Government of India welcomes FDI in all sectors where it is permitted, especially for development of infrastructure, technologic al upgradation of Indian industry through 'greenfield' investments and in projects ha ving the potential of creating employment opportunities on a large scale. Investment fo r setting up Special Economic Zones (SEZs) and establishing manufacturing units are also welcomed.

OBJECTIVE OF THE STUDY

- To study the growth of total FDI inflows and outflows in India for the past 10 year period.
- To analyze the top investing countries and sectors in FDI inflows in India.

LIMITATIONS OF THE STUDY

The study on country and sector wise inflows is made only for the past 3 year period accounting to the financial year 2010 - 2013 (up to Jan 2013).

RESEARCH METHODOLOGY

This research is descriptive in nature. The data is secondary in nature. Graphs and tables have also been used where ever required to depict statistical data of FDI during the study period.

Secondary data used: Reports and publications of various associations connected with business and Industry, Agencies, government etc. Websites of RBI, DIPP, OECD. Journals, books and magazines related to FDI in different sector Historical documents and other sources of published information.

ANALYSIS AND DISCUSSION

Table 1: TOTAL FDI OUTFLOWS FOR THE PERIOD 2002-2012 (IN US $ MN)

Year	Amount in USD million	%age growth	Cumulative %age
2002-03	1,679	...	...
2003-04	1,879	12%	12%
2004-05	2,179	16%	28%
2005-06	2,978	37%	65%
2006-07	14,344	382%	446%
2007-08	17,281	20%	467%
2008-09	19,257	11%	478%
2009-10	15,928	-17%	461%
2010-11	15,346	-4%	457%
2011-12 (P)	12,608	-18%	439%

Source: OECD Fact book: Economic, Environmental and Social Statistics; (P) - Provisional

Interpretation:

It shows that the amount of total FDI outflows for the period 2002 to 2012 and the highest FDI outflows in the country is the period 2006-07 with 14,344 in US $ mnfrom 2,978 USD mn in 2005-06. The succeeding periods show constant fluctuations.

Chart 1: TOTAL FDI OUTFLOWS FOR THE PERIOD 2002-2012 (IN US $ MN)

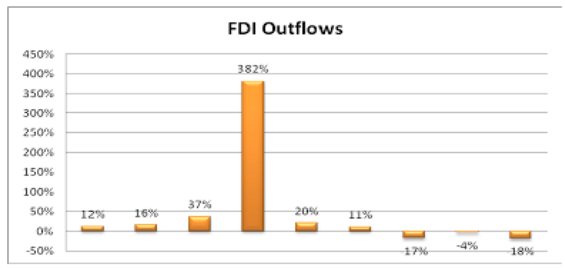


Table 3: TOTAL FDI INFLOWS FOR THE PERIOD 2003-2013 (IN US $ MN)

Year	Amount in USD Million	% Growth	Cumulative % Growth
2003-04	4,322	(-)14%	-14%
2004-05	6,051	40%	26%
2005-06	8,961	48%	74%
2006-07	22,826	155%	229%
2007-08	34,843	53%	281%
2008-09	41,873	20%	301%
2009-10 (P) (+)	37,745	(-)10%	292%
2010-2011 (P) (+)	34,847	(-)8%	284%
2011-12 (P)	46,553	34%	318%
2012-13 (P) (UP TO Jan 2013)	30,824		

Source: As Per DIPP's FDI Database.

RBIs Bulletin March, 2013 dt. 11.03.2013 (Table No. 34 – FOREIGN INVESTMENT INFLOWS). Figures updated by RBI up to January, 2013. (P) All figures are provisional."+" Data in respect of „Re-invested earnings & „Other capital for the years 2009- 10, 2010-11 & 2012-13 are estimated as average of previous two years.

Interpretation:

It shows that the highest amount of FDI inflows was in the period 2011 -12 with a recovery after the recession period showing a dip of -10% during the year 2009-10 and 2010-11 (-8%). i.e. 46,553 in US $ mn.

Chart 2: TOTAL FDI INFLOWS FOR THE PERIOD 2003-2013 (IN US $ MN)

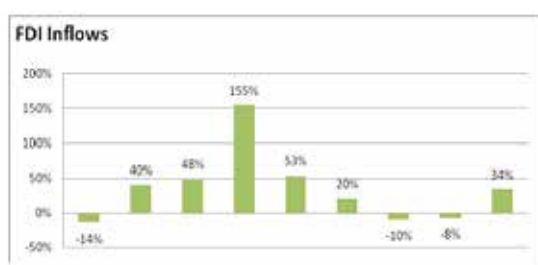


Table 3 STATEMENT ON COUNTRY-WISE FDI INFLOWS

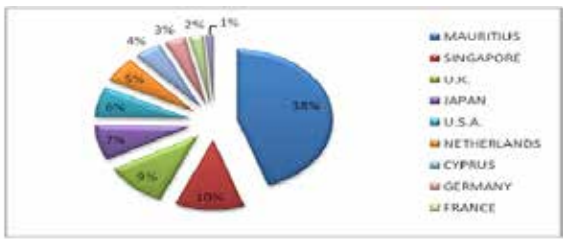
Amount in Rs. crores (US$ in millions)

Ranks	Country	2010-11 (April - March)	2011-12 (April - March)	2012-13 (April - Jan.)	Cumulative Inflows	%age to total Inflows (in terms of US $)
1.	MAURITIUS	31,855 (6,987)	46,710 (9,942)	44,508 (8,175)	333,979 (72,343)	38 %
2.	SINGAPORE	7,730 (1,705)	24,712 (5,267)	9,968 (1,823)	87,556 (18,976)	10 %
3.	U.K.	12,235 (2,711)	36,428 (7,874)	5,625 (1,048)	80,286 (17,517)	9 %
4.	JAPAN	7,063 (1,562)	14,089 (2,972)	9,308 (1,693)	67,159 (14,006)	7 %
5.	U.S.A.	5,353 (1,170)	5,347 (1,115)	2,726 (500)	50,615 (11,064)	6 %
6.	NETHERLANDS	5,501 (1,213)	6,698 (1,409)	8,219 (1,517)	40,544 (8,626)	5 %
7.	CYPRUS	4,171 (913)	7,722 (1,587)	2,365 (435)	32,035 (6,835)	4 %
8.	GERMANY	908 (200)	7,452 (1,622)	3,204 (587)	24,032 (5,208)	3 %
9	FRANCE	3,349 (734)	3,110 (663)	3,159 (585)	16,536 (3,512)	2 %
10.	U.A.E.	1,569 (341)	1,728 (353)	940 (171)	11,260 (2,414)	1 %

Source: As per DIPP's FDI data base

Interpretation:
The report shows that the MAURITIUS country is the highest foreign investor in India with 38%. After Mauritius, Singapore and UK invest the highest FDI in India with 10% and 9% respectively and Japan with 4th position in FDI in India.

Chart 3: STATEMENT ON COUNTRY-WISE FDI INFLOWS



FINDINGS

- The study shows that the inflows and outflows are constantly performing well in terms of growth with a tremendous growth after the recession period.
- It also depicts that Service Sector plays a major role with regard to foreign direct investments acting as a priority sector in investment and Construction development being second shows much scalability of improvement in FDI policy reforms. Mauritius and Singapore ranks the top in investing countries with maximum FDI inflows year after year.

CONCLUSION

It can be concluded that despite the Indian Government's closed FDI policies the FDI equity inflows shows that India's long-term outlook is strong, though in the short term, there is some erosion of confidence, which is visible in the outflows and about 57% of foreign investments are from Mauritius, Singapore and Japan. It also shows that FDI has helped to raise the output, productivity and employment in service sector as the Indian service sector generates employment opportunities. Next to it Infrastructure and Telecommunications helps in strengthening the Indian economic condition. Hence it can be said that the Government's intention to attract foreign institutional investor s as a way to halt the rupees' depreciation puts short-term stagnation in FDI and helps country to make an impression on the world wide level through liberalization and globalization, paving way to retail sector.

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