Trends of FDI Inflows in India

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Abstract

The purpose of this study is to provide a changing trends in the flow of foreign direct investment (FDI) (With the adoption of new economic policy in 1991 and subsequent reforms process, India has witnessed a change in the flow and direction of foreign direct investment (FDI) into the country. This is mainly due to the removal of restrictive and regulated practices. Foreign direct investment in India increased from 409 crores in 1991-92 to 122,919 crores in 2008-09. However, the country is far behind in comparison to some of the developing countries like China. In so far as growth trend of FDI is concerned, there has been quite impressive growth of FDI inflow into the country during this period. However, negative growth rate is noticed during the period 1998 2000 primarily due to falling share of major investor countries, steep fall of approval by 55.7% in 1998 compared to 1997 and slackening of fresh equity. However, traditional industrial sectors like food processing industries, textiles, etc. which were once important sectors attracting larger FDI, have given way to modern industrial sectors like electronics and electrical equipments, etc. In this paper analysis on the potentiality and challenges of FDI in the country is discussed and open a room for future discussion.

KEYWORDS: FDI, Liberalization, FIPB, FIPB, DIPP.

INTRODUCTION

Foreign direct investment has been directed towards the developed world, although the share of developing countries had been growing steadily until 1997 when it reached a peak of around 40 percent. There are three important features characterize FDI flows to emerging market Economies (EMEs) in the 1990s, owing largely to the adoption of macroeconomic and structural reforms by a number of these countries and the strengthening of their growth prospectus. Second, the surge in FDI, especially in the latter half of the 1990s was led by increased merger and acquisition activity .A number of EMEs in Latin America and eastern Europe including Argentina, Brazil, Mexico, and the Czech republic-undertook extensive privatization of state owned assets during this period which in many cases took the form of mergers and acquisitions. Third, for a number of countries there was a significant shift of FDI into services sector in tandem with the increasing share of services activities in these host countries. It may be noted that traditionally, FDI was directed towards the development of natural resources and manufacturing enterprises.

RECENT FDI TRENDS IN INDIA

The major investing countries are Mauritius (mainly routed from developed countries), USA, Japan, UK, Germany, the Netherlands and South Korea. The States that account for maximum FDI are Maharashtra, Delhi, Tamil Nadu, Karnataka and Gujarat. During the first half of 2002 the FDI inflows went mainly into transportation industry, services, telecom and electronics/IT/software. Factors that are responsible for the recent spurt in FDI inflows into India are: (i) Progressive liberalisation of FDI policy has strengthened investor confidence – opening up of new sectors (integrated townships, defence industry, tea plantations, etc.) removal of FDI caps in most sectors, including advertising, airports, private sector oil refining, drugs and pharmaceuticals, etc.; and greater degree of automaticity for investment. (ii) Liberalisation of foreign exchange regulations by way of simplification of procedures for making inward and outward remittances. (iii) Sectoral reforms, especially in sectors such as telecom, information technology and automobiles have made them attractive destination for FDI. (iv) Policy to allow foreign companies to set up wholly owned subsidiaries in India has enabled foreign companies to convert their joint ventures into wholly owned subsidiaries. The percentage of FDI through merger and acquisition route has increased to around 30 per cent (from around 10 per cent in 1999), which still much lower than the global percentage of 70-80 per cent. (v) Public sector disinvestment has finally emerged as an important means to promote FDI. (vi) Liberal policy towards Foreign Venture Capital Investment (FVCI) has given an impetus to investments in technology and infrastructure projects. (vii) Various investment facilitation measures taken by DIPP such as facility for electronic filing of applications, online chat facility with the applicants, online status on registration/ disposal of applications, dedicated e-mail facility for Investment related queries, etc., have also contributed substantially to improving investor confidence. On an average about 2,000 responses in a year are given to investors and potential investors.

Government has set up an inter-ministerial Committee to examine the extant procedures for investment approvals and implementation of projects, and suggest measures to simplify and expedite the process for both public and private investment. The Committee, which was set up in September 2001, has submitted Part I of its report to the Government, which is under examination. A sub-Group of the Committee is specifically looking into simplification of procedures relating to private investment. The sub-Group will submit its report shortly. The Foreign Investment Implementation Authority (FIIA) has been activated and now meets at regular intervals to review and resolve investment-related problems. A recent study conducted by FICCI, FIIA acknowledges that has emerged as a problem-solving platform.

The Government of India has taken many initiatives to attract FDI inflows, to boost the Indian economy since economic liberalization .As a result; India has received FDI to the tune of Rs 2,522,687.38 crore at the end of June 2007. FDI inflows in India has been analyzed on the basis of the following categorization, viz., year-wise, country-wise , sector- wise and region-wise FDI inflows .The year-wise FDI inflows in India are presented in table1.1

Table1.1: Year wise FDI inflows in India

Year	Rs crores	Growth rate (%)	Amount ($)	Growth rate (%)
1991-92	409	-	167	-
1992-93	1,094	167.47	393	135.32
1993-94	2,018	84.46	654	66.41
1994-95	4,312	113.68	1,378	110.09
1995-96	6,916	60.39	2,141	55.82
1996-97	9,654	39.59	2,770	29.38
1997-98	13,548	40.34	3,682	32.92
1998-99	12,343	-8.89	3,083	-16.27

1999-00	10,311	-16.64	2,439	-20.89
2000-01	12,645	22.64	2,908	19.23
2001-02	19,361	5.11	4,222	45.19
2002-03	14,932	-22.86	3,134	-25.77
2003-04	12,117	-18.85	2,634	-15.95
2004-05	17,138	41.44	3,754	42.52
2005-06	24,613	43.61	5,546	47.53
2006-07*	20,630	186.96	15,726	183.55
2007-08*	98,664	39.69	24,579	56.29
2008-09*	122,919	24.58	27,309	11.10

Source: www.dipp.nic.in//fdi.statistics /India
Note: -* Includes stock swap of share US$ 3.2 billion for the year 2006-07 and US $ % 5.0 billion for the year 2007-08.

Table1.1 shows the year wise FDI inflows in India. It is clear from the table that FDI inflows went up from 409 crore in1991-92 to Rs 122,919 crores in 2008-09 i.e. an increase by more than 40 times within a span of 18 years. This is mainly due to the initiatives (liberal policies) taken by the Government of India in attracting FDI inflows in India. However, there has been inconsistency in the growth rate of FDI inflows. The FDI growth rate was positive till the end of 1997-98, but thereafter it was negative in the year of 1998-99, 1999-00, 2002-2003, and 2003-2004 and positive in 200-2001, 2001-2002, and 2004-2005.The growth rate in FDI inflows was the highest in 1992-1993 and the decline rate was highest in 2002-03, as compared to their respective previous years. The growth rate was again highest in 2006-07, but it declines in 2008-09.

SECTOR-WISE FDI INFLOWS IN INDIA

The Department of Industrial Policy and Promotion has recently modified the classifications of the sectors and data released from August 2007 has been based on the new sectoral classifications. According to that classification, the top performers are the services and computer software & hardware sectors. Clearly, India has attracted significant overseas investment interest in services. It has been the main destination for off-shoring of most services as back-office processes, customer interaction and technical support. Indian services have also ventured into other territories such as reading medical X-rays, analyzing equities, and processing insurance claims. However, increasing competition is making it more difficult for Indian firms to attract and keep BPO employees with the necessary skills, leading to increasing wages and other costs.

Considering the sectoral composition of FDI over the period August 1991 to September 2006, shows that the largest recipient of such investment was the sector of electrical equipment (including computer software and electronics).The share of this sector in cumulative FDI inflows over the period was 17.54 %(i.e. one sixth). It was followed by service sectors (share 12.69%),telecommunication industry (share 10.39%),transportation industry (share 9.31%),power and oil refinery (share 7.45%),chemicals excluding fertilizers (share 5.79%),food processing industries (share 3.12%),drugs and pharmaceuticals (share 2.91%),metallurgical industries (share 2.14%)and cement and gypsum products (share 2.14%).in fact these ten sectors accounted for more than 70%of the FDI in India.

The information technology industry is one of the growing sectors in India. In the Asian pacific region India is one of the leading country pertaining to the information technology industry. With more international companies entering the industry, the Foreign Direct Investments (FDI) has been continuous over the year. The rapid development of the telecommunication sector was due to the FDI inflows in the form of international players entering the market and transfer of advanced technologies. The Telecom industry is one of the fastest growing industries in India. With a growth rate of 45%.The FDI in Automobile Industry has experienced huge growth in the past few years. The increase in the demand for cars and other vehicles is due to the increase in the levels of disposable income in India. The options have increased with quality products from foreign car manufacturers. The introduction finance scheme, easy repayment schemes has also helped the growth of the automobile sector. For the past few years the Indian Pharmaceutical Industry is performing very well. The varied functions such as contract research and manufacturing, clinical research, research and development pertaining to vaccines are the strengths of the Pharma Industry in India. Multinational pharmaceutical corporations outsource these activities and help the growth of the sector. The Indian Pharmaceutical Industry has been experiencing a vast inflow of FDI.
The FDI inflow in the Cement Industry in India has increased with some of the Indian cement giants merging with major cement manufacturers in the world such Holcim, Heidelberg, Italcementi, Lafarge, etc. The FDI in Semi-conductor sector in India were crucial for the development of the IT and the ITES sector in India. Electronic hardware is the major component of several industries such as information technology, telecommunication, automobiles, electronic appliances and special medical equipments.

The country is said to be developed only when there is development in all sectors of the economy. Accordingly, the government of India has been trying to attract foreign capital in all sectors of the economy. The FDI inflows from August 1991 to October 2005, the Electrical equipments including software industries enjoyed the lion's share, as compared to all other sectors of the Indian Economy. Out of total, 14.93% of FDI inflows went to the service sector and 2.14%to the Metallurgical industries in India. These refers to the highest and the lowest percentages respectively in total FDI inflows in India, from August1991 to October 2005.This signifies the importance of the service sector in the development of Indian economy. Further, it also reveals that the FDI inflow was also highest in Transportation industry between 1991to October 2005.

The Table 1.4 shows that out of the total FDI inflows from April 2006 to December 2009, the service sector enjoyed the highest share of 22% of FDI inflows as compared to other sectors of the Indian economy. When we compare it with the last years data, the largest share goes to the electric equipment including software i.e. 14.93% .Here in Table 1.4 computer software and Hardware attains the second position i.e. 9% of the total share of FDI inflows and chemicals 2% in India These refer to the highest and the lowest percentage respectively in total FDI inflows in India from April 2006 to December 2009.This signifies the importance of service Sector in the growth of Indian economy. Further there has been no consistency in the growth of FDI inflows.

Table 1.2 .SECTORS ATTRACTING HIGHEST FDI EQUITY INFLOWS:
Amount Rupees in crores (US$ in millions)

Ranks	***Sector***	2006-07 (April-March)	2007-08 (April-March)	2008-09 (April-March)	2009-10 (April-Dec. '09)	Cumulative Inflows (April '00 - Dec. '09)	% age to total Inflows (In terms of rupees)
1.	SERVICES SECTOR (financial & non-financial)	21,047 (4,664)	26,589 (6,615)	28,411 (6,116)	17,074 (3,547)	101,527 (22,796)	22 %
2.	COMPUTER SOFTWARE & HARDWARE	11,786 (2,614)	5,623 (1,410)	7,329 (1,677)	2,857 (595)	42,353 (9,549)	9 %
3.	TELECOMMUNICATIONS (radio paging, cellular mobile, basic telephone services)	2,155 (478)	5,103 (1,261)	11,727 (2,558)	11,442 (2,359)	39,809 (8,735)	8 %
4.	HOUSING & REAL ESTATE	2,121 (467)	8,749 (2,179)	12,621 (2,801)	11,472 (2,383)	35,255 (7,896)	8 %
5.	CONSTRUCTION ACTIVITIES (including roads & highways)	4,424 (985)	6,989 (1,743)	8,792 (2,028)	10,543 (2,218)	32,720 (7,409)	7 %
6.	POWER	713 (157)	3,875 (967)	4,382 (985)	6,088 (1,258)	20,099 (4,448)	4 %
7.	AUTOMOBILE INDUSTRY	1,254 (276)	2,697 (675)	5,212 (1,152)	4,696 (976)	19,763 (4,365)	4 %
8.	METALLURGICAL INDUSTRIES	7,866 (173)	4,686 (1,177)	4,157 (961)	1,613 (336)	13,118 (3,060)	3 %
9.	PETROLEUM & NATURAL GAS	401 (89)	5,729 (1,427)	1,931 (412)	1,085 (219)	11,262 (2,612)	2 %
10.	CEHMICALS (other than fertilizers)	930 (205)	920 (229)	3,427 (749)	1,258 (264)	10,825 (2,398)	2 %

Source: www.dipp.nic.in//fdi.statistics /India
Note: Cumulative Sector- wise FDI inflows (from April 2000 to December 2009).

CONCLUSION :

An attempt has been made in the present chapter to analyse the prevailing patterns of foreign direct investment inflows into the country during different periods. The changing pattern reflects the growing investor's confidence in the country.

There have been substaintial increases in FDI inflows since 1991. Government of India has taken many initiatives to attract FDI inflows, to boost the Indian economy since economic liberalization. As a result, India has received FDI inflows from 1991 to 2008-09 was 409, 122,919 crores respectively.

The country- wise FDI inflows reveals that Mauritius is the top investing country in India, out of the FDI inflows. Mauritius share was 44% out of the total FDI inflows since 1991-2009 while as France share was only up to 1 % of the total FDI inflows. Considering the sectoral composition of FDI over the period of 1991- 2006, shows that the largest recipient of such investment was the sector of electric equipment (including computer software and electronics). The share of this sector in cumulative FDI inflows over the period was 17.54%. But from the period 2006 to December 2009, the service sector enjoyed the highest share of 22% of FDI inflows as compared to other sectors of Indian economy. Regional distribution of FDI is probably one of the prominent indicators to gauge the local business investment climate with a strong implication for the state policy makers. The share of major FDI attracting regions in terms of percentage was about 76.63%, Mumbai tops the list with a share of 35.89 % of the total approved amount of FDI to India. However, the FDI inflows in Patna, Kanpur and Guwhati regions of the RBI were very less and both taken together are less than 1 % of the total. There have been substantial increases in foreign exchange reserves accumulation in India during previous decades on account of foreign investment inflows. There is a marked difference between the foreign direct capital approved and its actual inflows. An insight into the facts shows that post approval hassles, setting up of foreign investment promotion council in place of Indian investment centre, ambiguous agenda of the state governments on foreign investment, overestimating Indian market non-competitive Indian banks, political instability and lack of interaction with credit rating agencies are the main factors behind the wide gap between impressive foreign investment approvals and sluggish and actual foreign direct investment inflows.

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