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FOREIGN DIRECT INVESTMENT INFLOWS INTO INDIA

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Abstract: *Foreign direct investment (FDI) as a strategic component of investment is needed by India for achieving the economic reforms and maintains the pace of growth and development of the economy. The present study completely relies upon the secondary data published by the Reserve Bank of India (RBI), United Nations Conference for Trade and Development (UNCTAD), Secretariat for Industrial Assistance (SIA), Centre for Monitoring Indian Economy (CMIE), Central Statistical Organization (CSO) and Economic Survey of Government of India. The secondary data relating to various dimensions of FDI such as inflow of FDI into India, FDI openness of Select Asian countries, the sectors attracting highest FDI inflows into India etc. have all been collected for economic analysis. Such statistical tools like, percentage, simple growth rates, mean average, frequency tables, correlation have been used in the study. For data illustration suitable diagrams and chart have also been used.*

Key Words: *Foreign Direct Investment; Reserve Bank of India; UNCTAD;FDI inflow; FDI Openess; Investment Rate.*

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INTRODUCTION

Foreign investment plays a significant role in development of any economy as like India. Many countries provide many incentives for attracting the Foreign Direct Investment (FDI). Need of FDI depends on saving and investment rate in any country. FDI provided mutual help to both the countries. For the home country, it is an investment-generating income and a source for spreading business operations globally, and for the host country, it is source of capital for the development of infrastructure, which is the corner stone for economic development. Infrastructure development is needed for the growth of domestic trade, foreign trade for reducing imports and external borrowings and for correcting the fiscal deficit. Developing find it hard to develop basic infrastructure which is badly needed for industrial development.

DEFINITION OF FOREIGN DIRECT INVESTMENT

Foreign Direct Investment (FDI) is the investment made by one country to other country for the purpose of developing industrial activities. It can be considered as the movement of capital across national frontiers in a manner that allows the investor to have a control over the investment. Firms that provide FDI are referred to as MNCs. The investors can invest in existing industries/business or can promote new industries. There can be two types of FDI-inward and outward. The cumulative of two, results in net FDI inflow. FDI is freely allowed in all the sectors except a few sectors, though in certain sectors FDI is not allowed beyond a ceiling.

FOREIGN DIRECT INVESTMENT

India has been ranked at the second place in global foreign direct investments in 2010 and will continue to remain among the top five attractive destinations for international investors during 2010-12, according to United National Conference on Trade and Development (UNCTAD) in a report on world investment prospects titled, 'World Investment Prospects Survey 2009-2012.

The 2010 survey of the Japan Bank for International Cooperation released in December 2010, conducted among Japanese investors, continues to rank India as the second most promising country for overseas business operations.

A report release in February 2010 by Leeds University Business School, commissioned by UK Trade and Investment (UKTI), ranks India among the top three countries where British companies can do better business during 2012-14.

India is ranked as the 4th most attractive foreign direct investment (FDI) destination in 2010, according to Ernst and Young's 2010 European Attractiveness Survey. However, it is ranked the 2nd most attractive destination following China in the next three years.

Moreover, according to the Asian Investment Intentions survey released by the Asia Pacific Foundation in Canada, more and more Canadian firms are now focusing on India as an investment destination. From 8 per cent in 2005, the percentage of Canadian companies showing interest in India has gone up to 13.4 per cent in 2010.

India attracted FDI equity inflows of US$ 1,274 million in February 2011. The cumulative amount of FDI equity inflows from April 2000 to February 2011 stood at US$ 128.642 billion, according to the data released by the Department of Industrial Policy and Promotion (DIPP).

The services sector comprising financial and non-financial services attracted 21 per cent of the total FDI equity inflow into India, with FDI worth US$ 3,274 million during April-February 2010-11, while telecommunications including radio paging, cellular mobile and basic telephone services attracted second largest amount of FDI worth US$ 1,410 million during the same period. Housing and Real Estate industry was the third highest sector attracting FDI worth US$ 1,109 million followed by power sector which garnered US$ 1,237 million during April-December 2010-11. The Automobile sector received FDI worth US$ 1,320 million.

During April-February 2010-11, Mauritius has led investors into India with US$ 6,637 million worth of FDI comprising 42 per cent of the total FDI equity inflows into the country. The FDI equity inflows from Mauritius is followed by Singapore at US$ 1,641 million and the US with US$ 1,120 million, according to data released by DIPP. The Government has approved 14 FDI proposal amounting to US$ 288.05 million, based on the recommendations of Foreign investment Promotion Board (FIPB) in its meeting held on March 11, 2001. These include:

- Kolkata based Dhunseri Investments got approval for FDI worth US$ 159.62 million.
- Mauritius based Ghir Investments got the approval of the Board for induction of foreign equity in an investing company. The company had proposed to get FDI worth US$ 118.36 million.

- Unihom India Pvt. Ltd. got approval for issue and allotment of partly paid up Rights Equity shares to carry out the business of technical and engineering consultants, advisors, planners, engineering for construction of roads, airports and bridges.
- PCRD Services Pvt. Limited, Singapore, got approval to increase the foreign equity percentage in an investing company.
- G+J International Magazines GmbH, Germany, got clearance for induction of foreign equity to carry out the business of publication and sale of speciality and life style magazines in India.
- Kyuden International Corporation, Japan got approval for setting up a joint venture (JV) company that will make downstream investments in the business of developing and establishing renewable power projects.
- The total merger and acquisitions (M and A) and private equity (PE) (including qualified institutional placement (QIP) deals in the month of February 2011 were valued at US$ 8.27 billion (76 Deals) as compared to US$ 1.95 billion (84 Deals) in the corresponding month of 2010, according to the monthly deals data released by Grant Thornton India.

REVIEW OF LITERATURE

A large numbers of research papers and articles have been published about Foreign Direct Investment in India. Reviews of selected authors are discussed here which may be very useful for the understanding of the present study.

According to **Mohan (2007)** the Indian experience with capital flows during the period 1950s to the first decade of this century reveals a paradigm shift from a prolonged period of capital scarcity to one of surplus. The key structural aspects volatile pattern of inflows. The key structural aspects include a significant shift from official to private capital flows and from debt to non-debt flows. Non-resident Indian deposits show considerable sensitivity to preference for overseas borrowings is predominantly influenced by domestic activity; but the persistence of interest rate arbitrate and global credit market shocks also have a significant pact. Foreign institutional investment inflows and stock prices have a bidirectional causal relationship with a time varying nature of the stock price volatility.

Volatile capital flows rather than trade flows seem to drive real exchange rate movements with consequences for the real economy.

Narayana (2006) says in his paper inflow of FDI in Karnataka that no consistent trend either increasing or decreasing is evident between FDI and economic growth and between FDI and exports, during 1993-94 to 2003-04. However, a positive correlation is evident between FDI inflows and economic growth since 2001-02 and between FDI inflows and total exports before 2001-02. This suggests a need for periodization for the study of relationship between FDI and economic growth and FDI and exports, in the State since 1991.

Lass (1993), Coase (1987) in their work about the growing importance of FDI throughout the world, argued that with certain transaction cost the firm's internal procedures are better suited than the market to organise transaction. Mundell (1957) has also concluded on the same line that foreign direct investment should ultimately flow into those countries that are importing goods from abroad. Because of market imperfection; such as tariffs and quotas, foreign forms will find it attractive to produce locally in order to satisfy domestic demand.

Singh Y., Bhatnagar A. (2011), "FDI in India and China; A comparative analysis" The study found that both enjoys healthy rates of economic growth but FDI inflow in china is higher than India.

Saini A., Law S. H., Ahmad A. H. (2010), "FDI and economic growth: New evidence on the role of financial markets", it was proved that the positive impact of FDI on growth "kicks in" only after financial market development exceeds a threshold level. Until then, the benefit of FDI is non-existent.

THEORETICAL BACKGROUND

Hymer-Kindleberger Theory

According to the **Hymer-Kindleberger theory (1969)**, the foreign owned firm would make an investment in the host country only if it possesses some compensating indigenous firms. This is however, not a sufficiency condition of FDI since the firms has the option of licensing the advantage (technology) to an indigenous producer or exporting the product to host country. Clearly certain other conditions have to be satisfied for FDI flows to arise. Three such conditions are:

(i) The advantage is internally transferable (it can be exploited by a subsidiary of the parent firm, without any additional cost to the parent firm or to the subsidiaries already exploiting it);

(ii) It is more profitable for the foreign owned firm to exploit the advantage itself than to license an indigenous producer (because of imperfections in the market for knowledge, and heavy to heavy firm to firm transfer costs of the advantage); and

(iii) Exporting the product to the host country is not possible or unprofitable due to tariff or transport cost barriers.

OBJECTIVES OF THE STUDY

The following are the objectives of the present study.

1. To analyse the trends of FDI inflow into India from 1991-92 to 2009-2010.
2. To analyze the share of top investing countries FDI inflow.

HYPOTHESES

The following are the hypotheses of the study

1. FDI inflows into India since 1991 show an increasing trend

METHODOLOGY

The present study completely relies upon the secondary data published by the Reserve Bank of India (RBI), United Nations Conference for Trade and Development (UNCTAD), Secretariat for Industrial Assistance (SIA), Centre for Monitoring Indian Economy (CMIE), Central Statistical Organization (CSO) and Economic Survey of Government of India. The secondary data relating to various dimensions of FDI such as inflow of FDI into India, FDI openness of Select Asian countries, the sectors attracting highest FDI inflows into India etc. have all been collected for economic analysis. Such statistical tools like, percentage, simple growth rates, mean average, frequency tables, correlation have been used in the study. For data illustration suitable diagrams and chart have also been used.

PERIOD OF THE STUDY

The present study covers the period of 19 years from 1991-92 to 2009-2010.

LIMITATION

There is a limitation in the present study namely,

1. Lack of continuous time series data in the RBI Bulletin and other sources of publication, so some tables have been framed only with available data.

FOREIGN DIRECT INVESTMENT

The following table presents the Foreign Direct investment

Inflows into India for the years 1991-92 to 2009-2010

Table-1 Foreign Direct Investments (Rs. in crores)

S. No.	Year	Direct Investment	AIIP
1	1991-92	316	-
2	1992-93	965	205.38
3	1993-94	1,838	90.47
4	1994-95	4,126	124.48
5	1995-96	7,172	73.82
6	1996-97	10,015	39.64
7	1997-98	13,220	32.00
8	1998-99	10,358	-21.64
9	1999-2000	9,338	-9.85
10	2000-01	18,406	97.12
11	2001-02	29,235	58.83
12	2002-03	24,367	-16.65
13	2003-04	19,860	-18.49
14	2004-05	27,188	36.89
15	2005-06	39,674	45.92
16	2006-07	103,367	160.54
17	2007-08	140,180	35.61
18	2008-09	161,536	15.23
19	2009-10	176,304	9.14

Source: RBI Bulletin (for the relevant years except percentage)

http://www.rbi.org.in. AIIP: Annual Incremental Increase in Percentage

The following are the inferences of the table -1 Foreign Direct Investment

The Foreign Direct Investment inflows into India in absolute term has increased from Rs.316 crore to Rs.1,76,304 crore for the years 1991-92 to 2009-10. It represents an increase of 558 times. The trends of Foreign Investment inflows into India show the increasing trends over the year except a few years. The highest annual growth rate viz. 205.38 per cent was recorded in the year 1992-93 and the lowest annual growth rate viz. 9.14 per cent recorded in the year 2009-10. In some of the years under the study periods shows the negative growth rate. It is interesting to note that the liberalization process motivated higher FDI

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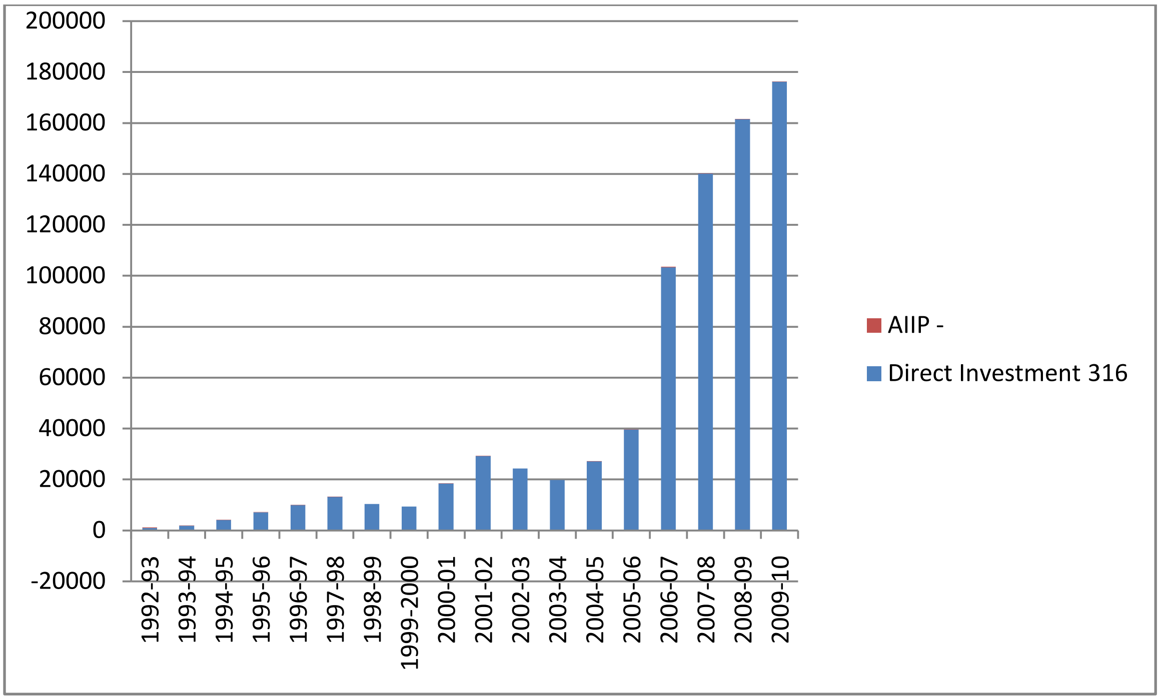
inflows into India, the highest growth rate of FDI inflow viz. 205.38 per cent was recorded in 1992-93. The following bar diagram (Fig.1) showing the Foreign Direct

Fig-1 Foreign Direct Investments



Share of Top Investment Countries

The following table presents the share of top investing countries cumulative FDI inflows in to India for the years 1991 to 2010

Table – 2 Share of Top Investing countries FDI Inflows (Rs. in crores)

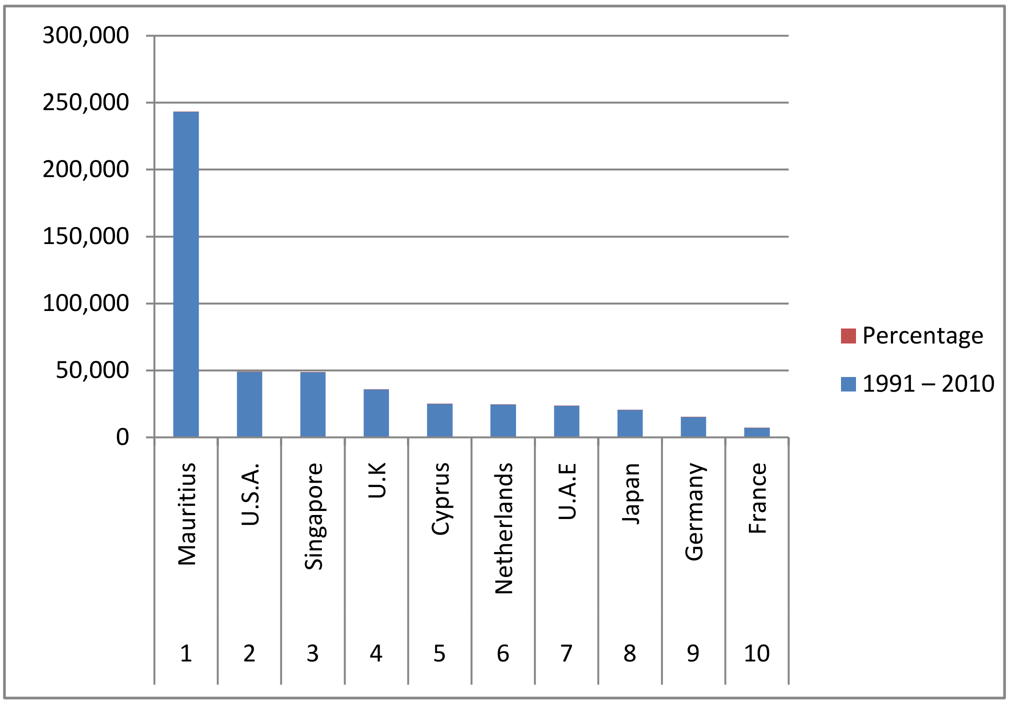
Rank	Country	1991 – 2010	Percentage
1	Mauritius	243,322	49.36
2	U.S.A.	48,909	9.92
3	Singapore	48,854	9.91
4	U.K	35,809	7.26
5	Cyprus	25,043	5.08
6	Netherlands	24,604	4.99
7	U.A.E	23,646	4.80
8	Japan	20,445	4.15
9	Germany	15,185	3.07
10	France	7,175	1.46
	Total	492992	100

Source: RBI Bulletin (for the relevant years) ,http://www.rbi.org.in.

The following are the findings of the table - 2 the share of the top investing countries cumulative inflows into India for the years 1990-91 to 2009-10

The highest investment viz. Rs.2, 43,322 crore was invested by Mauritius in India which covers 49.36 per cent of the total investment of top 10 investing countries in India. The lowest investment viz. Rs.7,175 crore was invested by France in India which covers 1.46 per cent of the total investment of the top ten investing countries in India for the year 1990-91 to 2009-10. United States of America and Singapore have invested Rs.48.909 crore and Rs.48,854 crore respectively. UK, Cyprus and Netherland have invested Rs.35,809 crore, Rs.25043 crore and Rs.24,604 crore respectively. U.A.E., Japan and Germany have invested Rs.23, 646 crores, Rs.20, 445 crore and Rs.15,185 crores respectively. It is interesting to note that Mauritius Investment in India viz. Rs.2,43,322 is more or less equal to the investment viz. Rs.2,49,670 crore of other nine top level investing countries in India. The difference between the Investment of Mauritius and other nine countries of top ten investing countries in India is only Rs.6348 crore; Hence Mauritius has occupied a vital role in Foreign Investment in India. The following bar diagram (Fig.2) showing the share of top ten investing countries in India for the years 1991 to 2010.

Fig .2: Share of Top Investing Countries FDI inflows



FINDINGS:

- The Foreign Direct Investment inflows into India in absolute term has increased from Rs.316 crore to Rs.1,76,304 crore for the years 1991-92 to 2009-10. It represents an increase of 558 times. The trends of Foreign Investment inflows into India shows the increasing trends over the year except a few years. The highest annual growth rate viz. 205.38 per cent was recorded in the year 1992-93 and the lowest annual growth rate viz. 9.14 per cent recorded in the year 2009-10. In some of the years under the study periods shows the negative growth rate. It is interesting to note that the liberalisation process motivated higher FDI inflows into India, the highest growth rate of FDI inflow viz. 205.38 percent was recorded in 1992-93.
- The highest investment viz. Rs.2,43,322 crore was invested by Mauritius in India which covers 49.36 per cent of the total investment of top 10 investing countries in India. The lowest investment viz. Rs.7,175 crore was invested by France in India Which covers 1.46 per cent of the total investment of the top ten investing countries in India for the year 1990-91 to 2009-10. United States of America and Singapore have invested Rs.48.909 crore and Rs.48,854 crore respectively. UK, Cyprus and Netherland have invested Rs.35,809 crore, Rs.25043 crore and Rs.24,604 crore respectively. U.A.E., Japan and Germany have invested Rs.23,646 crores, Rs.20,445 crore and Rs.15,185 crores respectively. It is interesting to note that Mauritius Investment in India viz. Rs.2,43,322 is more or less equal to the investment viz. Rs.2,49,670 crore of other nine top level investing countries in India. The difference between the Investment of Mauritius and other nine countries of top ten investing countries in India is only Rs.6348 crore; Hence Mauritius has occupied a vital role in Foreign Investment in India.

CONCLUSION

Foreign Direct Investment (FDI) as a strategic component of investment is needed by India for its sustained economic growth and development through creation of higher level of employment generation in the world, expansion of existing manufacturing industries, short and long term project in the field of healthcare, education, research and development (R & D) etc. Government should design the FDI policy such a way where FDI inflow can be utilized as means of enhancing domestic production, savings and exports through the equitable distribution among states by providing much freedom to states, so that they can attract FDI inflows at their own level. The impact of FDI inflows into India in recent years in highly significant.

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