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A Study of Trends and Patterns of Foreign Direct Investment in India

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Abstract: International Economic Integration plays an important role in the overall development of a country. Foreign Direct Investment is one major instrument of attracting International Economic Integration in any economy. It serves as a bridge in between investment and economic growth. Countries around the world developed and developing, are taking efforts to attract greater flows of FDI into their economies. India has followed an extremely cautious approach after economic reforms in 1991, India has liberalized its foreign policy and took several measures to attract FDI. India has a large potential market, pool of talented, educated and skilled workforce, has relatively low labour costs and liberal democratic political structure, the FDI inflows into India have remained low in comparison to other emerging markets.

This paper seeks to know the trends and patterns of FDI in India, to analyze the status of FDI inflows into India and identify the problems and issues that have made India less attractive destination as compared to other nations. The study is exploratory in nature and secondary data has been collected from various reports and publications of Government of India, World Bank, World Economic forum.

Keywords: FDI, International Economic Integration, emerging markets, economic reforms.

Introduction

Foreign Direct Investment is a major component of a country's national financial accounts. Foreign direct investment (FDI) in India has played an important role in the development of the Indian economy. It also plays an important role in accelerating the pace of economic growth. FDI provides the much needed foreign exchange to help the bridge the balance of payment. FDI brings complementary assets such as technology, management and organizational competencies and there are spillover effects of these assets on the rest of the economy.FDI motivate economic growth for every stage of development of a country. Developing countries experience both strong capital accumulation and technology transfer through FDI. Foreign direct investment is that investment, which is made to serve the business interests of the investor in a company, which is in a different nation distinct from the investor's country of origin.

The objective behind allowing FDI is to harmonize and complement domestic investment, for achieving a higher level of economic growth and providing more and more opportunities for up gradation of technologies and to have an access to global managerial skills and practices. Thatswhy FDI has become a battle ground in the emerging economies. In addition to the direct capital financing it supplies, FDI can be a source of valuable technical know-how while nurturing the linkages with local firms, which can help the economy on the path of the development.

Review of Literature

Many empirical studies have been undertaken to analyze the trends and patterns of Foreign Direct Investment (FDI) in India, few of them are as follows:-

Williamson (1993) pointed out that as developing countries creditworthiness is restored, capital (bond and equity) flows are likely to become an increasingly prominent source of external finance. Although portfolio equity flows to developing countries have increased sharply in recent years, they are expected to be extremely sensitive to a country's openness, particularly to rules concerning the repatriation of capital and income.

Mucchielli and Soubaya (2000) investigated the determinants of the volume of trade of the French Multinational Corporations (MNCs). The major findings suggest that inward FDI has a positive influence on Foreign trade (including exports and imports), and this positive influence is stronger for exports compared with imports.

Charkraborty and Basu (2002) explore the co-integration relationship between net inflows of FDI, real GDP, unit cost of labor and the proportion of import duties in tax revenue for India with the method developed by Johansen (1990). They find two long-run equilibrium relationships. The first relationship is between net inflow of FDI, real GDP and the proportion of import duties in tax revenue and the second is between real GDP and unit cost of labor. They find unidirectional Granger Causality from real GDP to net inflow of FDI.

Naga Raj (2003) discusses the trends in FDI in India in the 1990s and compare them with china. The study raises some issues on the effects of the recent investments on the domestic economy. Based on the analytical discussion and comparative experience, the study concludes by suggesting a realistic foreign investment policy.

Salisu A.A. fees (2004) examined the determinants and impact of FDI on economic growth in developing countries using Nigeria as a case study. The study observed that inflation, debt burden, and exchange rate significantly influence FDI inflows into Nigeria. The contribution of FDI to economic growth in Nigeria was very low even though it was perceived to be a significant factor influencing the level of economic growth.

Nigeria Kulwinder Singh (2005) analyzed the developments (economic and political) in India relating to the trends in two sectors:- Industry and Infrastructure. The study concludes that the impact of the reforms in India on the policy environment for FDI presents a mixed picture. The industrial reforms have gone far, though they need to be supplemented by more infrastructure reforms, which are a critical missing link.

Sapna Hooda (2011) analyzed the impact of FDI on economic growth of Indian economy for the period 1991-92 to 2008-09. She Used OLS method for this purpose. The empirical results found that foreign Direct Investment (FDI) is a vital and significant factor influencing the level of growth in Indian economy. She also estimated the determinants of FDI inflows and found that trade GDP, Research and Development GDP, Financial position, exchange rate, Reserves GDP are the important macroeconomic determinants of FDI Inflows in India.

Objectives of the study

1. To analyse trends and patterns of FDI in India.
2. To analyze the status of FDI inflows into India.
3. To identify preferred sectors for investment in India.

Research Methodology

The study is totally based on secondary data. This study refers to the secondary data as it is one of the convenient ways to collect the data. As this is a macro study, so with the help of primary data it was not possible to collect data from all over the world. That is also one of the biggest reasons to opt the secondary data. We have collected data from several sources like data has been collected from UNCTAD, RBI Report, EXIM Bank Report, from various articles related to FDI. For policies several books and websites have been referred.

The study consists of data of various developing and developed counties in which we have analysed the data of last 10 years. In our study we have gone through descriptive study and collected data from various types like data of FDI inflow of developing countries, data of FDI of various sectors over the years, data of FDI inflow in which country and what are those determinants which has attracted the inflow. The nature of this study is based on descriptive research as we have explored the topic in various dimensions. In the study we have gone through the literature of previous years and polices of the government related to FDI inflow. Where as we have also conducted the detailed study of inflow and the major sectors and destination for the same. Apart of all these things we have explored the study in terms of the factors motivating Indian industries for FDI inflow and the impact of geographical areas on FDI inflow.

Data Analysis

We have discussed about Total FDI inflow over the given period of time that is 2000-2016. Apart of this we have also described sector wise inflow in India. Here is the list of the sectors from where we got FDI inflow in India. In the analysis we have done analysis country wise and sector wise to know the pattern of FDI inflow.

Country wise:

Table: 1

SHARE OF TOP INVESTING CONTRIES FDI EQUITY INFLOWS (Financial years):

Ranks	Country	2014-15 (April – March)	2015-16 (April – March)	2016-17 (April, 15 – June, 16)	Cumulative Inflows (April ’00 – June ’16)	%age to total Inflows (in terms of US$)
1.	**MAURITIUS**	29.360 **(4,589)**	55,172 **(9,030)**	13,236 **(2,089)**	438,892 **(89,644)**	35%

2.	**SINGAPORE**	36,,625 **(5,985)**	41,350 **(9,742)**	23,230 **(3,673)**	190,477 **(35,861)**	14%
3.	**U.K.**	20,426 **(3,215)**	8,769 **(1,447)**	755 **(119)**	110,409 **(22,329)**	9%
4.	**JAPAN**	10,550 **(1,718)**	12,752 **(2,084)**	2,916 **(459)**	96,312 **(18,811)**	7%
5.	**NETHERLAND**	13,920 **(2,270)**	20,960 **(3,436)**	4,123 **(652)**	81,381 **(15,323)**	6%
6.	**U.S.A**	4,607 **(806)**	11,150 **(1,824)**	3,959 **(627)**	70,839 **(14,378)**	6%
7.	**GERMANY**	6,093 **(1,038)**	6,904 **(1,125)**	3,497 **(554)**	40,007 **(8,198)**	3%
8.	**CYPRUS**	3,401 **(557)**	3,634 **(598)**	608 **(96)**	39,971 **(8,140)**	3%
9.	**FRANCE**	842 **(305)**	3,881 (635)	877 **(138)**	23,495 **(4,651)**	2%
10.	**SWITZERLAND**	2,094 **(341)**	2,066 **(337)**	598 **(94)**	15,812 **(3,139)**	1%
TOTAL FDI INFLOWS FROM ALL COUNTRIES		147,518 **(24,299)**	189,107 **(30,931)**	60,298 **(9,508)**	1,293,836 **(258,141)**	-

Includes inflows under FDI Schemes of RBI.

Note: (i) Cumulative country wise FDI equity inflows (from April, 2000 to June, 2015) are at Annex – A
(ii) %age worked out in US$ terms & FDI inflows received through FIPS/SIA + RBI's Automatic Route + acquisition of existing shares only.

Table shows that highest amount of FDI in India from 2010-11 to 2016-17 came from Mauritius and the maximum investment came into manufacturing sector. Various graphs has been shown for graphical understanding of investment made by different countries and into different sectors. On the basis of this table we can say that these are the countries who are investing in India.

We have also studied in terms of region wise or the countries who have invested in India. Following are the countries

1. MAURITIUS
2. SINGAPORE
3. U.K.
4. JAPAN
5. NETHERLANDS
6. U.S.A.
7. GERMANY
8. CYPRUS
9. FRANCE
10. SWITZERLAND

Sector wise analysis :
Table: 2
SECTORS ATTRACTING HIGHEST FDI EQIUTY INFLOWS:
Amount in Rs. Crores (US$ in million)

Ranks	***Sectors***	**2014-15 (April – March)**	**2015-16 (April – March)**	**2016-17 (April, 15 – June, 16)**	**Cumulative Inflows (April '00 – June '16)**	**%age to total Inflows (in terms of US$)**
1.	***SERVICES SECTOR***	13,294 **(2,225)**	19,963 **(3,253)**	4,036 **(636)**	209,578 **(43,350)**	17%
2.	**CONSTRUCTION DEVELOPMENT TOWNSHIPS, HOUSING, BUILT – UP INFRASTRUCTURE**	7,508 **(1,126)**	4,582 **(758)**	**216 (34)**	113,355 **(24,098)**	9%
3.	**COMPUTER SOFTWARE & HARDWARE**	6,896 **(1,126)**	13,564 **(2,200)**	16,245 **(2,556)**	89,181 **(17,575)**	7%
4.	**TELECOMMUNICATIONS (radio, paging, cellular mobile, basic telephone services)**	7,987 **(1,307)**	17,372 **(2,895)**	2,517 **(395)**	86,609 **(17,453)**	7%
`5.	**AUTOMOBILE INDUSTRY**	9,027 **(1,517)**	15,794 **(2,570)**	6,914 **(1,094)**	70,906 **(13,477)**	5%
6.	**DRUGS & PHARMACEUTICALS**	7,191 **(1,279)**	9,211 **(1,523)**	1,370 **(215)**	66,652 **(13,336)**	5%
7.	**CHEMICALS (OTHER THAN FERTILIZERS)**	4,738 **(878)**	**4,077 (669)**	1,598 **(251)**	50,909 **(10,588)**	4%
8.	**POWER**	6,519 **(1,066)**	3,985 **(657)**	1,717 **(271)**	48,357 **(9,828)**	4%
9.	**TRADING**	8,191 **(1,343)**	**16,962** (2,762)	5,679 **(897)**	49,479 **(8,958)**	4%
10.	**METALLUGICAL INDUSTRIES**	3,436 **(568)**	2,897 **(472)**	845 **(133)**	41,992 **(8,680)**	3%

Note:
(i)** Services sector includes Financial, Banking, Insurance, Non – Financial/Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis
(ii) Cumulative sector-wise FDI equity inflows (from April, 2000 to June, 2016) are at Annex- 'B'.
(iii) FDI Sectoral data had been revalidated /reconciled in line with the RBI, which reflects minor changes in the FDI figures (increase/decrease) as compared to the earlier published sectoral data.

On the basis of study of above mentioned table following are the top 10 sectors where we got FDI

1. Services Sector
2. Construction Development: Townships, Housing Built up Infrastructure
3. Computer Software and Hardware
4. Telecommunications
5. Automobile Industry
6. Drugs and Pharmaceuticals
7. Chemicals
8. Power
9. Trading
10. Metallurgical Industries

This table shows the analysis on the basis of region. Particularly in which region we got FDI.
Table: 3
STATEMENT ON RBI'S REGIONAL OFFICES (WITH STATE COVERED) RECEIVED FDI EQUITY INFLOWS
(from April, 2000 to June, 2016)
Amount Rupees in crores (US$ in million)

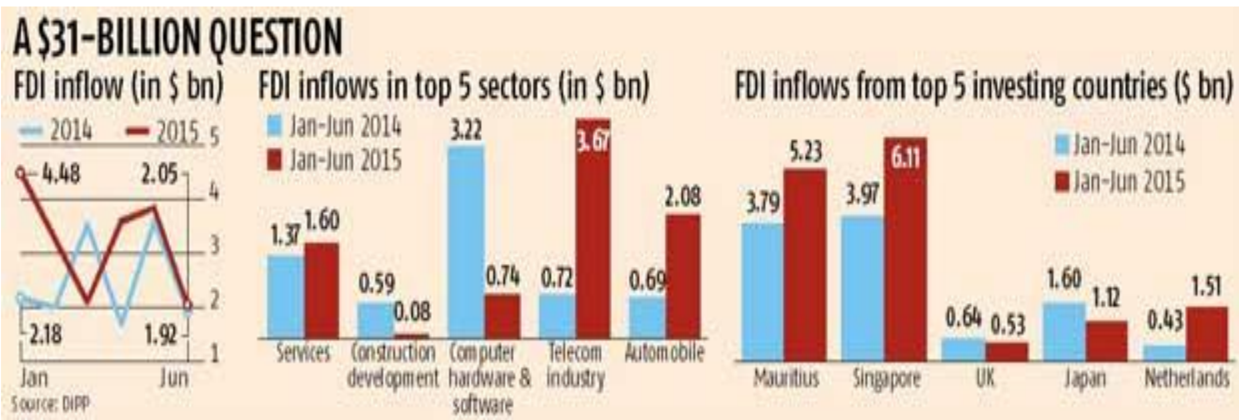
S. No.	RBI's – Regional Office	State Covered	2014-15 (April – March)	2015-16 (April – March)	2016-17 (April, 15 – June, 16)	Cumulative Inflows (April '00 – June '16)	%age to total Inflows (in terms of US$)
1.	MUMBAI	**MAHARASHTRA DADRA & NAGAR HAVELI, DAMAN & DIU**	20,595 **(3,420)**	38,933 **(6,631)**	12,538 **(1,979)**	395,560 **(75,097)**	29
2.	NEW DELHI	**DELHI, PART OF UP AND HARYANA**	38,190 **(6,242)**	42,252 **(6,875)**	19,892 **(3,128**	268,915 **(52,539)**	20
3.	CHENNAI	**TAMIL NADU PONDICHERRY**	12,595 **(2,116)**	23,361 **(3,818)**	5,828 **(924)**	94,595 **(17,938)**	7
4.	BANGALORE	**KARNATAKA**	11,422 **(1,892)**	21,255 **(3,444)**	8,447 **(1,336)**	90,569 **(17,456)**	7
5.	AHMEDABAD	**GUJRAT**	5,282 **(860)**	9,416 **(1,531)**	4,732 **(745)**	58,529 **(11,786)**	5
6.	HYDERABAD	**ANDHRA PRADESH**	4,024 **(676)**	8,326 **(1,369)**	2,681 **(422)**	51,921 **(10,437)**	4
7.	KOLKATA	**WEST BENGAL, SIKKIM ANDAMAN & NICOBAR ISLANDS**	2.659 **(436)**	1,464 **(239)**	689 **(108)**	15,316 **(3,089)**	1
8.	CHANDIGARH	**CHANDIGARAH, PUNJAB**	562 **(91)**	234 **(39)**	91 **(14)**	6,452 **(1,345)**	1
9.	JAIPUR	**RAJASTHAN**	233 **(38)**	3,237 **(541)**	109 **(71)**	6,904 **(1,281)**	1
10.	BHOPAL	**MADHYA PRADESH, CHATTISHGARH**	708 **(119)**	601 **(100)**	9 **(2)**	6,105 **(1,217)**	1
11.	KOCHI	**KERALA, LAKSHADWEEP**	411 **(70)**	1,418 **(230)**	35 **(6)**	6,186 **(1,216)**	1
12.	PANJI	**GOA**	103 **(17)**	211 **(35)**	81 **(13)**	3,949 **(836)**	0.3
13.	KANPUR	**UTTER PRADESH, UTTRANCHAL**	150 **(25)**	679 **(110)**	137 **(22)**	2,581 **(504)**	0.2
14.	BHUBANESHWAR	**ORISSA**	288 **(48)**	56 **(9)**	3 **(0.4)**	1,964 **(398)**	0.2
15.	GUWAHATI	**ASSAM, ARUNACHAL PRADESH, MANIPUR, MEGHALAYA, MIZORAM, NAGALAND,**	4 **(0.6)**	29 **(5)**	37 **(6)**	418 **(89)**	0.03

		TRIPURA					
16.	PATNA	**BIHAR, JHARKHAND**	9 (1)	68 (11)	234 (37)	501 (87)	0.03
17.	JAMMU	**JAMMU & KASHMIR**	1 **(0.2)**	25 **(4)**	0.00 **(0.00)**	26 **(4)**	0.00
18.	REGION NOT INDICATED		50,283 **(8,245)**	37,544 **(6,211)**	4,754 **(750)**	312,814 **(62,700)**	24
SUB. TOTAL			147,518 **(24,299)**	189,107 **(30,931)**	60,298 **(9,508)**	1,293,303 **(258,020)**	
19	RBI'S –NRI SCHEMES (from 2000 to 2002)		0	0	0	533 **(121)**	
GRAND TOTAL			147,518 **(24,299)**	189,107 **(30,931)**	60,298 **(9,508)**	1,293,836 **(258,141)**	

The study of FDI inflow has been based on the data obtained from the following RBI Regional offices.

1. MUMBAI
2. NEW DELHI
3. CHENNAI
4. BANGALORE
5. AHMEDABAD
6. HYDERABAD
7. KOLKATA
8. CHANDIGARH`
9. JAIPUR
10. BHOPAL
11. KOCHI
12. PANAJI
13. KANPUR
14. BHUBANESHWAR
15. GUWAHATI
16. PATNA
17. JAMMU

FDI Inflow:
Fig: 1

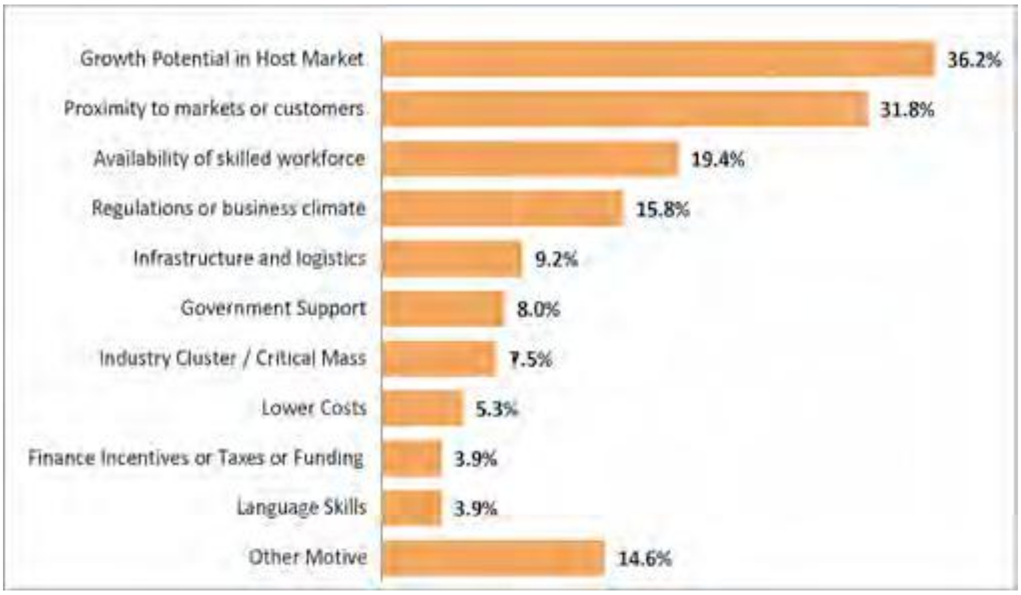


On the basis of analysis of the above mentioned table and the graph and pie chart mentioned below we can say that we are getting maximum inflow from Singapore. The biggest attracting sector for FDI is Telecom industry.

Top Location Determinants: Percentage of Projects Citing Investment Motive

In order to get a more broader picture of the parameters and motivations that have influenced Indian companies to venture overseas, it is desirable that these granular level metrics are consolidated at a broader level and buttressed by empirical data on actual investments so as to pin down the key determinants of Indian direct investments abroad. For assessing this, real time data from FDI intelligence has been used. As mentioned in above diagram there are various reasons for considering India most favorable destination for the purpose of investment. These are the determinants because of what several countries are interested to invest in India.

Fig: 2



Source: FDI intelligence, EXIM Bank Research

These are the basic determinants for attraction for FDI towards India:

1. Growth Potential in Host market
2. Proximity to markets or customers
3. Availability of skilled workforce
4. Regulations or business climate
5. Infrastructure and logistics
6. Government support
7. Industry cluster
8. Lower cost
9. Finance Incentives
10. Language skills

India's Position in the World
Status of FDI Inflow

The table given below demonstrates the status of FDI inflows into India, China, Developing countries as a whole and the world average as a % GFCF.

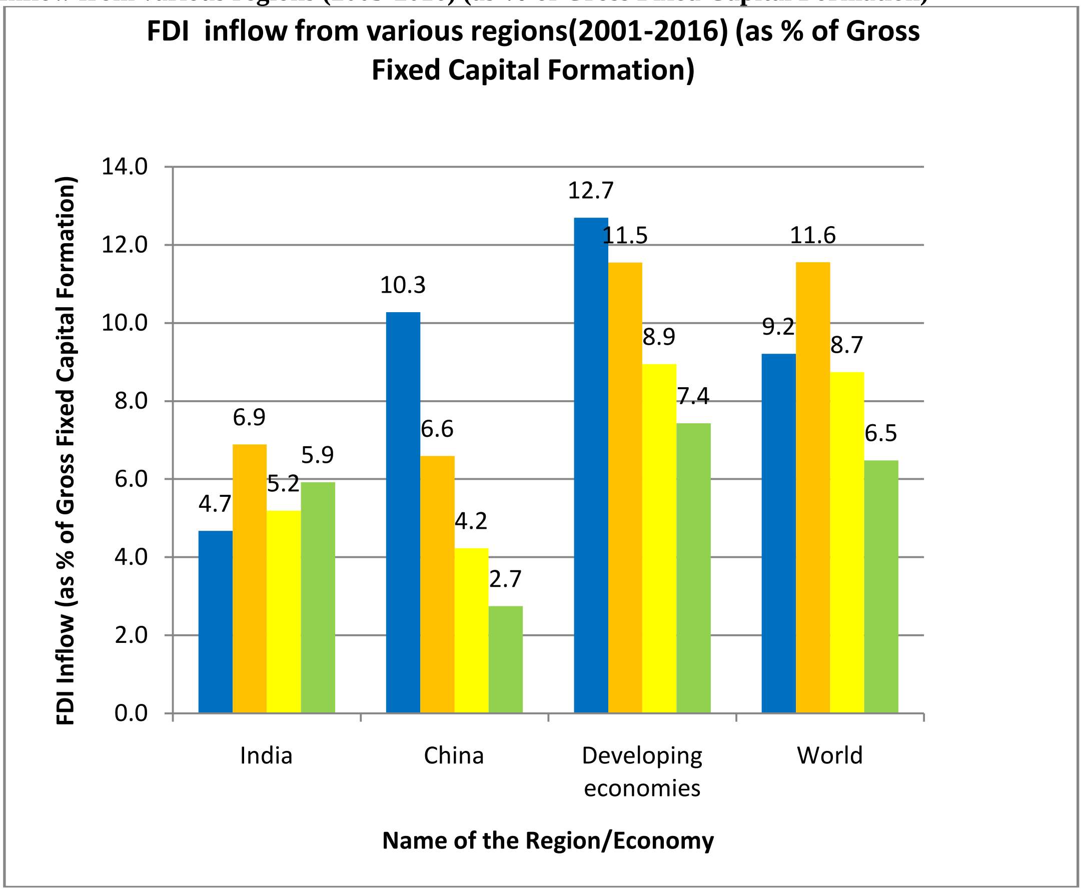
Table:4
FDI Inflow (as % of Gross Fixed Capital Formation)

FDI Inflow (as Percentage of Fixed Capital Formation) 2003-2016				
Region/economy	**India**	**China**	**Developing economies**	**World**
2003	4.7	10.3	12.7	9.2
2004	4.6	10.0	9.4	7.8
2005	2.8	8.3	9.5	6.4
2006	2.8	7.7	10.6	6.9

2007	3.0	8.0	11.2	8.5
2008	6.9	6.6	11.5	11.6
2009	6.2	6.1	12.2	13.6
2010	12.3	5.9	11.3	9.8
2011	8.2	4.1	8.5	8.5
2012	5.2	4.2	8.9	8.7
2013	5.8	3.7	8.4	9.1
2014	4.2	3.2	7.8	7.9
2015	5.1	2.9	7.6	8.0
2016	5.9	2.7	7.4	6.5

Source: World Investment Report, 2016, United Nations Conference on Trade and Development

Fig: 3
FDI Inflow from various regions (2003-2016) (as % of Gross Fixed Capital Formation)



Source:- World Investment Report, 2016, United Nations Conference on Trade and Development

FDI inflow as Percentage of GFCF, for developing economies as well as China has declined significantly during the entire period studied. For the world as a whole the FDI inflows increased between 2003 and 2008 and thereafter it declined. On the other hand, for India, FDI as a percentage of GFCF reached a peak in 2008 at 6.9 %, on average it increased over the entire period.

Conclusion

FDI in India has facilitated India to achieve a definite degree of growth, development and financial stability. FDI has allowed India to centre on the areas that may have required economic attention and many other challenging issues faced by the Indian economy. FDI is as an engine of capital, technology, managerial skills, technological progress & capacity, access to foreign markets and in maintaining economic growth and development for developing countries, where as for developed countries it is considered as a tool for accessing the market of emerging economies. There is a clear indication from the data that foreign investors showed keen interest in Indian economy because of liberalized regime pursued and followed by Indian economy.

There are a number of factors contributing to this contemporary trend with special reference to being its demographics' with a young population there is a huge consumer base that is to be tapped, the growing middle class, increased urbanization and awareness, rising disposable incomes. India is now opening its policies even more to attract the foreign investment inflows. When large investments pour in, the general climate for inflows improves". Foreign Direct Investment (FDI) is an important driver of growth. It is an important source of economic development for country whereas some people see threat of FDI to sovereignty of host and domestic business houses. Policy makers need to ensure transparency and consistency in policy making along with comprehensive long term development strategy.

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