

FDI Inflows to India: Trends and Patterns

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Abstract

Foreign direct investment plays an extraordinary and growing role in global business. It can provide new markets and marketing channels, cheaper production facilities, access to new technology; it can provide a source of new technologies, capital process, products, organizational technologies and management skills and as such can provide a strong impetus to economic development. In, India there is complicated tax and tariff structure. This complicated tax structure makes the image of India bad in terms of foreign investors. The attitude of government personnel and bureaucrats is one of the major hurdles on the path of FDI coming over to India. Many times, due to this attitude there is delay in decision making. The Objectives of the present paper are I) to study the trend and pattern of FDI in India and ii) to study the sector-wise flows of FDI in India. The present paper is based on secondary data. The required data has been collected from various sources- World Investment Report, various bulletins of Reserve Bank of India, publications from ministry of commerce, Industry government of India. The trends analysis of the data has been done. In order to analyses the collected data various statistical tools like percentage and averages is used.

Key words: extraordinary- facilities- production- business- investors- complicated- tax

Introduction

Foreign direct investment is considered to be the most attractive type of capital flows from emerging economies as it is expect to bring latest technology and enhance production capacities of the economy. The rate of FDI inflow in India was initially low due to regulatory policy framework but there is sharp rise in investment from 2005 towards because of the new policy. Despite the turbulence from 2008 global financial crises, India's long term drivers have remained attractive for international companies. The growth of middle class consumers of India continue to attract both at first time, as well as in serial acquirer of more companies, which increase the FDI flows in India. According to UNCTAD (2007) India has emerged as the second most attractive destination for FDI after China ahead of US, Russia and Brazil. While India has experienced a marked rise in FDI inflows in the last few years(doubling from an average of US\$5.6 billion the previous three years to around US \$19 billion in 2006-07) it still receives far less FDI flows than China or much smaller economies

in Asia like Hong Kong and Singapore was ahead India. The present paper attempts to probe into the trends and patterns of inward FDI flow of India and study the sector-wise flow of FDI in India. Foreign direct investment plays an extraordinary and growing role in global business. It can provide new markets and marketing channels, cheaper production facilities, access to new technology; it can provide a source of new technologies, capital process, products, organizational technologies and management skills and as such can provide a strong impetus to economic development.

In, India there is complicated tax and tariff structure. This complicated tax structure makes the image of India bad in terms of foreign investors. The attitude of government personnel and bureaucrats is one of the major hurdles on the path of FDI coming over to India. Many times, due to this attitude there is delay in decision making. One of another major issue in India is corruption. This is one of the biggest drawbacks which prove to be one of greatest obstacles on the

path of FDI coming over to India. In India the condition of roads, transport and power supply is extremely poor. Due to poor infrastructure in the country, operations of business houses are highly affected. The foreign companies are hesitant to enter in India.

Review of Literature

Cheng (1993)¹ noted the growing importance of cross-border R&D activities and suggested additional research on internationalization of FDI research and development.

Nayak (1999)² in his paper analyzed the patterns and trends of Canadian FDI in India. He found that India did not figure more in the investment plans of Canadian firms because of indifferent attitude of Canadians towards India and lack of information of investment opportunities in India. He suggests measures such as publishing of newsletter for highlight investment opportunities in India and detailed focus of India's area of strength for enhancing Canadian FDI in India.

Wang (2001)³ examine the impact of FDI inflows on 12 Asian economies: Bangladesh, China, Hong Kong, India, Indonesia, Korea, Malaysia, Pakistan, Philippines, Singapore, Thailand and Taiwan during the period 1987-97 and found significant impact on economic growth of FDI in manufacturing sector in the host economies.

Gupta (2007)⁴ in his paper made an attempt to review the changes in sector trends in India due to FDI inflows since liberalization. This paper also examined the changed policy implications on sectoral growth and economic development of India as a whole.

Bose (2007)⁵ in his book study the sectoral experiences faced by India and china in connection with FDI inflow. It provide information on FDI in India and China, emerging issues, globalization, trends and issues in FDI inflows, FDI inflows in selected sectors. A

comparative study has also been conducted on FDI outflow from India and China

Singh and Singh (2011)⁶ investigate the trends of FDI inflows to India, during 1970-2007 using time series data with the objective to study the reasons behind the fluctuations of the FDI inflow in India and to search the cause that is responsible for the fluctuations of the trends of FDI.

Renuka, Ganesan and Durgamani (2013)⁷ finds that most of foreign countries liked to invest their amount in service sector, construction, telecommunications and computer software and hardware sector. These sectors earn more profit compared to others. FDI in retail sector brings new technology in India; improve rural infrastructure, reduced wastages of agriculture produces etc.

Research Methodology

The present paper is based on secondary data. The required data has been collected from various sources- World Investment Report, various bulletins of Reserve Bank of India, publications from ministry of commerce, Industry government of India. The trends analysis of the data has been done. In order to analyses the collected data various statistical tools like percentage and averages is used.

Objectives

1. To study the trend and pattern of FDI in India.
2. To study the sector-wise flows of FDI in India.

Trends and Patterns of FDI in Post Liberalization Era

The government of India opened the India economy for the foreign player in 1991 when the economic reforms process was initiated. A foreign capital inflow in terms of foreign direct investment and portfolio investment has an increasing trend after the liberalization.

Table 1
Inflow of Foreign Direct Investment and Total Capital in India 1992 to 2013
 (Amount US\$ million)

Year	FDI Inflow	Total Investment	Percentage
1992	129	133	96.99
1993	315	559	56.35
1994	586	4153	14.11
1995	1314	5138	25.57
1996	2144	4892	43.83
1997	2821	6133	46.00
1998	3557	5385	66.05
1999	2462	2401	102.54
2000	2155	5181	41.59
2001	4029	6789	59.35
2002	6130	8151	75.21
2003	5053	6014	83.72
2004	4322	15699	27.53
2005	6051	15366	39.38
2006	8961	21453	41.77
2007	22826	29829	76.52
2008	34842	61631	55.75
2009	41873	28019	149.44
2010	37745	70121	53.83
2011	34847	66318	52.54
2012	46710	34298	136.19
2013	28687	36396	78.82

Source: RBI Monthly Bulletin Nov.2001, Ps 1148, and December 2009 P S1285 May 2014 table34

In 2005 government announced the SEZ Act and SEZ scheme was launched with the specific intent of providing an internationally competitive and hassle free environment for exports. SEZs were being perceived as a major source of attracting FDI across the globe. In the year 1999 and 2012 inflow of FDI has increased to the level of US \$2462 million and US\$ 46710 million and its percentage is 102.54 and 136.19 of total foreign investment respectively. In these years

indirect foreign investment has moved in negative direction because the total foreign investment was found less than foreign direct investment.

FDI Inflows: Route-wise trends and Patterns

Before 1991, the inflows of FDI in India were not at all satisfactory. Foreign capital inflow increased after the liberalization which started after July1991.

Table 2
Route Wise Inflows of FDI during 1992 to 2013

(Amount US \$million)

Year	FIPB	%	RBI	%	Other	%	Total
1992	66	51.2	-	-	63	48.8	129
1993	222	70.5	42	13.3	51	16.2	315
1994	280	47.8	89	15.2	217	37.0	586
1995	701	53.4	171	13.0	442	33.6	1314
1996	1249	58.3	169	7.8	726	33.9	2144
1997	1922	68.1	135	4.8	764	27.1	2821
1998	2754	77.4	202	5.7	601	16.9	3557
1999	1821	73.9	179	7.3	462	18.8	2462
2000	1410	65.4	171	7.9	574	26.7	2155
2001	1456	60.7	454	18.9	490	20.4	2400
2002	2221	54.2	767	18.8	1107	27.0	4095
2003	919	33.2	739	26.8	1106	40.0	2764
2004	928	41.6	534	24.0	767	34.4	2229
2005	1062	28.1	1258	33.3	1458	38.6	3778
2006	1126	18.8	2233	37.4	2616	43.8	5975
2007	2156	13.1	7151	43.4	7174	43.5	16481
2008	2298	8.5	17127	63.8	7440	27.7	26865
2009	5400	16.9	21332	66.5	5334	16.6	32066
2010	3471	12.8	18987	69.9	4688	17.2	27146
2011	1945	8.7	12994	58.4	7311	32.9	22250
2012	3046	8.5	20427	56.9	12381	34.5	35854
2013	1185	4.7	14869	58.8	9220	36.48	25274
Total	37638		120030		64992		222660

Source: RBI Monthly Bulletin, November 2001, p. S1148. December 2009, p. S1285. Oct 2014.

Table 2 presents the route wise inflows of foreign direct investment from the period 1992 to 2013. It shows the amount of foreign direct investment received through various agencies/ route such as government's approval (FIPB/SIA routes); RBI's automatic approval and other routes. It further shows that total amount of actual inflows of FDI during 1992-2013 accounted for US\$222660million. Out of which inflow of RBI's automatic route had significant share of

53.90 percent, government's FIPB/SIA approval accounted for 16.90 percent and remaining 29.19 percent shared by other route. RBI route gained a lot of significant for inflow of FDI. Since, it has accounted for 13.3 percent to 58.8 percent of total inflow of from 1992 to 2013. FIPB/SIA (automatic) route has attracted for 51.2 percent to 4.7 percent of the total inflow of FDI during the study period. At the overall level, RBI automatic route was found the maximum share of 53.90

percent to the total FDI inflows followed with a gap by government’s FIPB/SIA and other routes.

Hence RBI’s automatic route is most popular route till date.

Descriptive Statistics

Dependent Variable: FDI

Route	Mean	Standard Deviation	N
FIPB	1710.8182	1217.55018	22
RBI	5457.7273	7929.14896	22
Others	2954.1818	3595.69242	22
Total	3374.2424	5237.72563	66

Levene’s Test of Equality of Error Variances^a

Dependent Variable: FDI

F	df1	df2	Sig.
31.302	2	63	.000

Tests the null hypothesis that the error variance of the dependent variable is equal across groups.^a

a. R Squared = .090 (Adjusted R Squared = .061)

Estimated Marginal Means Route

Dependent Variable: FDI

Route	Mean	Standard Error	85% Confidence Interval	
			Lower Bound	Upper Bound
FIPB	1710.818	1082.105	-451.597	3873.233
RBI	5457.727	1082.105	3295.312	7620.142
Others	2954.182	1082.105	791.767	5116.597

To study the degree of association among the FIPB, RBI and others variables the hypothesis is tested by Levene’s test. The error term is mean square (error) = 25760945.221, R-square is .090, adjusted R-square is .061 and it is significant at 5% level of significant. Since the calculated value is greater than the table value, therefore, it can be concluded that route of FDI are significantly high difference, which means FIPB, RBI and other

route of FDI inflow have not been equally considered.

FDI Inflows: Country-wise trends and patterns

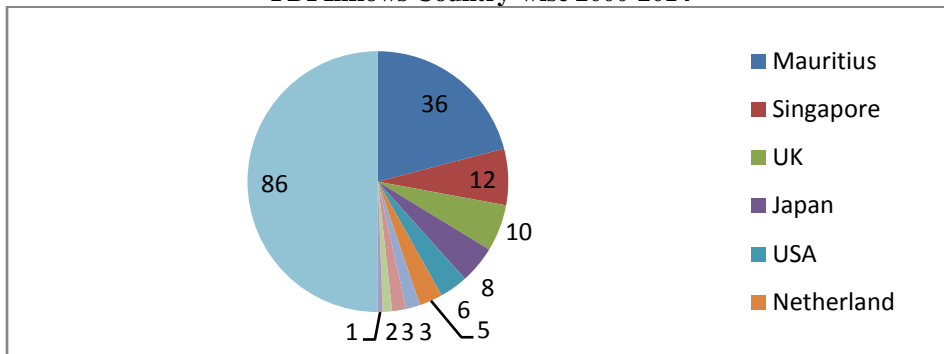
It is proposed to analyze the country wise inflow of Foreign Direct Investment in India during 2000-2014. The relevant data is presented in table 3.

Table 4
Inflow of FDI during 2000-2014 by Top 10 investors
 (Amount in US \$ million)

Country	Amount	Percentage	Rank
Mauritius	78525	36	1
Singapore	25445	12	2
UK	20764	10	3
Japan	16268	8	4
USA	11927	6	5
Netherland	11236	5	6
Cyprus	7446	3	7
Germany	6519	3	8
France	3879	2	9
Switzerland	2708	1	10
Other Country	32864	14	-
Total	217581	100	-

Source: dipp.nic.in/fdi_statistics/india_fdi_index.htm.

Figure 1
FDI Inflows Country-wise 2000-2014



Source: dipp.nic.in/fdi_statistics/india_fdi_index.htm

Table 4 and Figure 1 indicates the inflow of FDI in India during 2000 to 2014 which states that total amount of US \$ 217.75 billion were received from various countries. Among all the countries Mauritius has been the largest direct investor in India. Firms based in Mauritius invested over US \$78.52 billion between 2000-2014. Mauritius has low rates of taxation and an agreement with India on double tax avoidance regime. To take advantage of that situation, many companies have set up dummy companies in Mauritius before investing in India. Singapore is the second largest

investor in India. The total capital flows from the Singapore is around US\$12 billion, which accounted for 12 percent of the FDI inflows. The UK and Japan are India's third and fourth largest FDI inflows. USA, Netherland, Cyprus, Germany, France and Switzerland keep the fifth, sixth, seventh, eighth, ninth and tenth positions with share figures 6,5,3,3,2 and 1 percent respectively under the study.

FDI Inflows: State-wise trends and patterns

The Table 4 shows the state-wise FDI inflow for the period 2000-14 of India.

Table 4
Inflow of FDI during 2000-14 RBIs Region-wise
(Amount in US\$ million)

Regional offices of RBI	State covered	Amount	Share in total FDI inflows
Mumbai	Maharashtra, dadra & Nagar Haveli, Daman & Diu	66757	31
New Delhi	Delhi, Part of Uttar Pradesh and Haryana	42535	19
Chennai	Tamil Nadu, Pondichery	13197	6
Bangalore	Karnataka	12676	6
Ahmedabad	Gujarat	9510	4
Hyderabad	Andhra Pradesh	8646	4
Kolkata	West Bengal, Sikkim, Andaman & Nicobar Island	2742	1
Chandigarh	Chandigarh, Punjab, Haryana, Himachal Pradesh	1292	1
Bhopal	Madhya Pradesh, Chhattisgarh	1115	0.5
Kochi	Kerala, Lakshadweep	981	0.5
Panaji	Goa	788	0.4
Jaipur	Rajasthan	723	0.4
Bhuvneshwar	Orissa	388	0.3
Kanpur	Uttar Pradesh, Uttarakhand	372	0.2
Guwahati	Assam, Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Tripura	79	0
Patna	Bihar, Jharkhand	39	0
Region not Indicated		55740	25.6
Total		217581	100

Source: www.dipp.nic.in/fdi_statistics/India_fdi_index.htm

The Table 4 shows Mumbai region has attracted largest amount of foreign direct investment of US\$ 66757 million which is 31 percent of the

total foreign direct investment flows during the period 2000-2014. New Delhi has attracted total of US \$ 42535 million which is 19 percent of the

total foreign direct investment inflows during the same period. Chennai region and Bangalore region have received foreign direct investment of US \$ 13197million and US \$ 12676 million which is 6 percent of the total inflows of foreign direct investment. While region wise, this percentage in Mumbai, Delhi, Chennai, Bangalore, Ahmadabad, Hyderabad, Kolkata, Chandigarh, Bhopal, Kochi, Panji, Jaipur, Bhunveshwar, Kanpur, Gowahati and Patna turns out to be 31,19,6,6,4,4,1,1,0.5,0.5,0.4,0.4,0.3, and 0.2, percent respectively during the above said period.

FDI Inflows: Sector-wise trends and patters

The sector-wise breakup of foreign direct investment provides a wide list of items in which India is attracting foreign investment as part of its reform policies. The top sector which has received the larger amount of foreign direct investment during the study period includes-telecommunication sector, computer software and hardware sector, construction sector, service sector, metallurgical sector, chemical sector, power sector, housing and real estate sector and pharmaceutical sector.

Table 5
Sector-wise inflow of FDI

Sector	(US\$ Million)								
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2005-12	Growth rate in Times
Telecommunication Sector	624	478	1261	2558	2554	1665	1997	11137	3.20
Automobiles sector	143	276	675	1152	1236	1299	923	5704	6.45
Computer Software and Hardware Sector	1375	2614	1410	1677	919	784	796	9575	-1.42
Construction Sector	-	-	-	-	-	1227	3141	4368	2.56
Service Sector	543	4664	6615	6138	4176	3296	5216	30648	9.60
Metallurgical Industry Sector	153	173	1177	961	420	1098	1786	5768	11.67
Chemical Sector	447	265	229	749	366	398	7252	9706	16.22
Power Sector	87	157	967	985	1272	1272	1652	6392	18.98
Housing and Real Estate Sector	-	-	-	1886	2935	1227	731	6779	-1.61
Pharmaceutical Sector	172.44	224.2	340.35	4246.76	213.08	209.38	3232.28	8638.49	18.74

Source: www.dipp.nic.in/fdi_statistics/India_fdi_index.htm

Table 5 shows that the service sector has attracted largest amount of foreign direct investment, which has increased from US\$ 543 million to US\$ 5216 million during the study period. In the entire period of 2005-2012 this sector has

attracted the foreign direct investment of US\$30648 million. It is followed by telecommunication sector as their share has increased from US \$ 624 million to US\$ 1997million during the same period. While the

sector-wise growth rate in telecommunication sector, automobiles sector, computer software and hardware sector, construction sector, service sector, metallurgical sector, chemical sector, power sector, housing and real estate sector and pharmaceutical sector turns out to be 3.2,6.45,-1.42,2.56,9.60,11.67,16.22,18.98,-1.61 and 18.74 times respectively during the study period.

Conclusion

FDI has gained momentum in the economic landscape of the world economies in last two decades. FDI is considered as the safer of external finance both by the developed and developing nations. There is a competition among the countries in receiving maximum FDI. A trend in world FDI inflow shows that maximum percentage of global FDI is vested to the developed nation. But later the share of developing countries increased in global FDI inflow. Among the world's emerging economies, the countries of Asian continent economies received maximum FDI inflows. In order to have generous flow of FDI, India has maintained Double Tax Avoidance Agreement (DTAA) with many countries. An analysis of last twenty two years trends of FDI inflow in India which shows that initially inflow was low but it rose afterwards. Although there has been a generous flow of FDI in India but the pace of FDI inflow has slowed in India, when it compared to China, Russian federation, Brazil and Singapore. Mauritius is the major route of investing in India. Mumbai and New Delhi are the two states, which received maximum FDI inflow.

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