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Trends and Patterns of Foreign Direct Investment in India- An Overview

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Abstract—*Foreign Direct investment plays a very important role in the development of the nation. Sometimes domestically available capital is inadequate for the purpose of overall development of the country. Foreign capital is seen as a way of filling in gaps between domestic savings and investment. India can attract much larger foreign investments than it has done in the past. The present study has focused on the trends of FDI Flow in India during 2007-08 to 2013-14 (up to November, 2013). The study also highlights country wise approvals of FDI inflows to India and the FDI inflows in different sector for the period April 2000 to Nov 2013. The study based on Secondary data which have been collected through reports of the Ministry of Commerce and Industry, Department of Industrial Promotion and Policy, Government of India, Reserve Bank of India, and World Investment Report. The study concludes that Mauritius emerged as the most dominant source of FDI contributing. It is because the India has Double Taxation Avoidance Agreement (DTAA) with Mauritius and most of the foreign countries like to invest in service sector.*

1. INTRODUCTION

Capital is the engine of economic development. Capital formation is an important determinant of economic growth and this statement is gaining importance in the recent times. Economic developments of a number of present day industrialized economies are assisted by foreign capital and it played an important role in the early stages of industrialization of most of the advanced countries today. It plays an important role in the developing economy also [24]. While domestic investments add to the capital stock in an economy, foreign direct investment (FDI) plays a complementary role in overall capital formation by filling the gap between domestic savings and investment. As a result FDI is getting accelerated at a faster rate and different countries of the world are trying their best to attract more and more FDI as it proves to be a great force for triggering the domestic economic development [7-9].

Foreign direct investment (FDI) is a direct investment into production or business in a country by a company in another country, either by buying a company in the target country or by expanding operations of an existing business in that country 18 [18]. Foreign Direct Investment (FDI) refers to the net inflows of investment to acquire a lasting management interest (10 per cent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It usually involves participation in management, joint ventures, transfer of technology and expertise [5, 10]. According to IMF, FDI is the category of international investment that reflects the objective of a resident entity in one obtaining a ‘lasting interest’ and control in an enterprise resident in another economy [4, 7, 16]. Basically, FDI provides a win – win situation to the host and the home countries. Both countries are directly interested in inviting FDI, because they benefit a lot from such type of investment. FDI is a sturdy source of money [22].

Foreign direct investment refers to investment in a foreign country where the investor retains control over the investment. It takes the form of starting a subsidiary, acquiring a stake in an existing firm, or starting a joint venture in the foreign country [6, 10].

India is perceived to be one of the most lucrative grounds for investing, in the eyes of the wealthy European as well as American investors. India also provides a liberal, attractive, and investor friendly investment climate [18]. In India, as per the rules of liberalisation, FDI comes through five routes. These are: the government (SIA/FIPB), RBI (automatic route), investment by NRIs, acquisition of shares, and equity shares of unincorporated bodies [10, 11]. In 1998 and 1999 Indian government has designed number of reforms to promote investment in India. FDI are permitted through financial collaborations, through private equity or preferential allotments, by way of capital markets through euro issues and in joint ventures [22]. In India, FDI is not permitted in the area of arms, nuclear, railway, coal or mining industries. FDI can work in number of areas like electricity generation its distribution and transmission. FDI finds difficulty in doing business because of the large beauractic structure of central government. They find the red tape paper work very inefficient and slow [22].

FDI in sectors/activities to the extent permitted under automatic route does not require any prior approval either by the Government or RBI. FDI in activities not covered under the automatic route requires prior Government approval. Such proposals are considered by the Foreign Investment Promotion Board (FIPB).

2. THE IMPORTANCE OF FDI

An increase in FDI may be associated with improved economic growth due to the influx of capital and increased tax revenues for the host country. For a host country or the foreign firm that receives the investment, it can provide a source of new technologies, capital, processes, products, organizational technologies and management skills, and as such can provide a strong impetus to economic development [10]. FDI serves the objectives of both the host country and foreign investors in various ways:

2.1 The Importance of FDI from Country Perspectives

FDI can contribute to Gross Domestic Product, Gross Fixed Capital Formation and balance of payments. There have been empirical studies indicating a positive link between higher GDP and FDI inflows.

It can also contribute toward debt servicing repayments; stimulate export markets and produce foreign exchange revenue. Foreign direct investment (FDI) is increasingly being recognized as an important factor in the economic development of countries.

FDI facilitates the transfer of technology, organizational and managerial practices and skills as well as access to international markets [18].

It helps to avoid foreign government pressure for local production and increases the total production capacity. FDI presents greater opportunities for co-production, joint ventures with local partners, joint marketing arrangements, licensing, etc [10].

2.2 The Importance of FDI from Investors Perspective

FDI enhances the domestic competitiveness, provides the opportunity of taking significant advantages of international trade technology, contributes towards increasing of sales and profit, extends sales potentials of the existing products, maintains cost competitiveness in the domestic market set-up, enhances possibilities of business expansion, helps in the process of obtaining global market share, reduce the dependency on existing markets, and also stabilize seasonal market fluctuations.

Host countries often try to channel FDI investment into new infrastructure and other projects to boost development. Furthermore, foreign investment can result in the transfer of soft skills through training and job creation, the availability of more advanced technology for the domestic market [18].

3. WHAT MAKES INDIA ATTRACTIVE FOR FDI"

India considered as one of the most suitable place for foreign investors despite problem areas like bureaucratic hassle. The country presents a wide area of investment opportunities for the investors and increasingly promoting the country as the place to invest. Over the years it has not been able to attract foreign direct investment at the same pace of China, but the picture is improving for India. The investors cannot ignore India anymore which as the country has the potentiality to become third largest economy of the world within short span of time. It is also the second largest among emerging nations. India is also one of the few markets in the world which offers high prospects for growth and earning potential in practically all areas of business [1, 2, 21, 25]. There are a number of reasons why foreign institutions opt to invest in India:

Huge Market Size and a Fast Developing Economy: India is the second largest country in the world just behind China in terms of population. This huge population base automatically makes a huge market for the business operators to capture and also a major part of it is still can be considered as un-served or not yet been penetrated. Therefore FDI investors automatically get a huge market to capture and also ample opportunity to generate cash inflows at relatively quicker times. The economy of India is also moving at faster pace than most of the economy of the world and inhabitants of the country also obtaining purchasing power at the same rate [3, 25].

Increasing Improvement of Infrastructure: A lot of research study in India finds out that historically the country fails to attract a significant amount of FDI mainly because of problems in infrastructure. But the scenario is changing. The Indian government has taken huge projects in transportation and energy sectors to improve the case. The projects for developing road transport is worth of $90 billion, for rail it has undertaken several projects each worth of $20 million and for ports and airports the value of development projects is around $ 80 billion. In addition the investment in energy development is worth of $ 167 billion and investment in nuclear energy development is outside that calculation. These huge investments are changing the investment climate in the country and investors will benefit hugely by that [12, 13].

Public Private Partnerships: Another significant advantage foreign investors experience in India today is the opportunities of PPP or Public Private Partnership in different important sectors like energy, transportation, mining, oil industry etc. It is advantageous in several ways as it has eliminated the traditional trade barriers and also joint venture with government is risk free up to the great extent [15, 17, 20].

IT Revolution and English Literacy: Today the modern India considered to be one of the global leaders in IT. India has developed its IT sector immensely in last few years and as of today many leading firms outsource their IT tasks in India. Because of IT advancement the firm which will invest in India will get cheap information access and IT capabilities as Indian firms are global leader. Along with that Indian youth are energetic and very capable in English language which is obligatory in modern business conduction. This capability gives India an edge over others. Foreign firms also find it profitable and worthy investment by recruiting Indian HR (14, 15, 17, 19].

Openness towards FDI: Recently the Government of India has liberalized their policies in certain sectors. Government has made the approval system far easier and accessible. Unlike the historical tradition, today for investing in India government approval do not require in the special cases of investing in various important sectors like energy, transportation, telecommunications etc [15, 20].

Regulatory Framework and Investment Protection: In the process of accelerating FDI in the country the government of India has make the regulatory framework lot more flexible. The government also opened few special economic zones and investors of those zones also get a lot of benefits by investing money. Apart from that there are number of laws has been passed and executed for making the investments safe and secure for the foreign investors [17, 20, 23, 25].

Improvement in domestic financial institutions and banks: The banking system in India has improved dramatically over the last few years, with FIs and banks looking to move towards universal banking [10].

- Well as citizens of Nepal and Bhutan are permitted to invest in the capital of Indian companies on repatriation basis, subject to the condition that the amount of consideration for such investment shall be paid only by way of inward remittance in free foreign exchange through normal banking channels.
- OCBs (Overseas Corporate Body) have been derecognized as a class of investors in India with effect from September 16, 2003. Erstwhile OCBs which are incorporated outside India and are not under the adverse notice of RBI can make fresh investments under FDI Policy as incorporated non-resident entities, with the prior approval of Government of India if the investment is through Government route; and with the prior approval of RBI if the investment is through Automatic route.

4. FDI INFLOWS: YEAR-WISE"

Table I depicts that flows of FDI received in India during April 2000 to October 2013 i.e. 309,012 US$ million. From the year 2000 to 2002 FDI inflow in India has shown an increasing trend. This may be the result of Foreign Exchange Management Act (FEMA) which is introduced in 1999. Further it follow negative trend up to period 2003-2004. But from the year 2004-05 to 2008-09 investment into India once again start growing [18].

Table 1: Financial Year-Wise FDI Flow From 2000-01 to 2013-14

	Financial Years 2000-01 to 2013-14 (up to November, 2013)		
S. No.	**Financial Year (April to March)**	**Total FDI flow in US$ Million**	**Total FDI flow % Growth Over Previous**
1.	2000-01	4,029	-
2.	2001-02	6,130	(+) 52 %
3.	2002-03	5,035	(-) 18 %
4.	2003-04	4,322	(-) 14 %
5.	2004-05	6,051	(+) 40 %
6.	2005-06	8,961	(+) 48 %
7.	2006-07	22,826	(+) 146 %
8.	2007-08	34,843	(+) 53 %
9.	2008-09	41,873	(+) 20 %
10.	2009-10 (P) (+)	37,745	(-) 10 %
11.	2010-11 (P) (+)	34,847	(-) 08 %
12.	2011-12 (P)	46,556	(+) 34 %
13.	2012-13 (P)	36,860	(-) 21 %
14.	2013-14 (P) (Apr-Oct, 2013)	18,934	-
Cumulative total (from April, 2000 to October, 2013)		3,09,012	-

Source: DIPP, Federal ministry of commerce and industry, Government of India.

5. FDI INFLOWS: SECTOR-WISE

India has been a major recipient of FDI Inflows in the majority of sectors. Foreign direct investment in India is allowed freely in most of the sectors, except a few, where specific guidelines are given for foreign direct investment beyond a limit [24].

Table II reveals the sector-wise break-up of FDI inflows in India from the period 2008-09 to 2012-13.

Table II: FOREIGN DIRECT INVESTMENT: SECTOR-WISE (US$ million)

SECTOR	**08-09**	**09-10**	**10-11**	**11-12**	**12-13**	**Total**	**% Share**
Manufacture	4777	5143	4793	9337	6528	38552	28.32
Construction	2237	3516	1599	2634	1319	15395	11.31
Financial Services	4430	2206	1353	2603	2760	18789	13.80
Real estate activities	1886	2191	444	340	197	7268	5.33
Electricity & energy generation	669	1877	1338	1395	1653	8122	5.96
Communication Services	2067	1852	1228	1458	92	7416	5.44
Business Services	643	1554	569	1590	643	8769	6.44
Miscellaneous Services	1458	888	509	801	552	6407	4.70
Computer Services	1647	866	843	736	247	7506	5.51
Restaurants and Hotels	343	671	218	870	3129	5848	4.29
Retail &Wholesale Trade	294	536	391	567	551	2723	2.00
Mining	105	268	592	204	69	1776	1.30
Transport	401	220	344	410	213	2725	2.00
Trading	400	198	156	6	`140	1776	.85
Education, R&D	243	91	56	103	150	848	.62

Others	1097	384	506	419	43	2905	2.13
Total	22697	22461	14939	23473	18286	136117	100.00

Source: RBI, Annual Reports from 2008-2009 to 2012-2013

6. FDI INFLOWS: COUNTRY-WISE

Table III depicts the country wise FDI inflow in India during April 2000 -Nov 2013. The analysis indicates that large part of FDI in India is contributed by fifteen countries which is 185506.59 US$ million while remaining approximately 11 per cent by rest of the world. Mauritius emerged as the most dominant source of FDI contributing 77,083.47 US$ million of the total investment in the country. It is because the India has Double Taxation Avoidance Agreement (DTAA) with Mauritius.

Table III: Country-Wise FDI Inflows from April 2000 to November, 2013

S. No.	Name of the country	Amount of FDI inflow (in US$ million)	% with total FDI inflow
1.	Mauritius	77083.47	36.93
2.	Singapore	22515.91	10.79
3.	United Kingdom	20671.41	9.90
4.	Japan	15269.34	7.31
5.	U.S.A.	11692.93	5.60
6.	Netherlands	10,472.78	5.02
7.	Cyprus	7259.63	3.48
8.	Germany	6113.50	2.93
9.	France	3780.73	1.81
10.	UAE	2637.77	1.26
11.	Switzerland	2535.36	1.21
12.	Spain	1748.19	0.84
13.	South Korea	1296.34	0.62
14.	Italy	1240.24	0.59
15.	Hong Kong	1188.99	0.57
	Total FDI Inflows	185506.59	88.86

Source: DIPP, Federal Ministry of Commerce & Industry, Government of India

7. CONCLUSION

In this hyper competitive and ever changing business environment no business organization is certain about tomorrow. That forces them to look for new destination and new market to capture. The emerging market of India without any doubt poses suitable choice for those companies. That’s why India emerges as the fifth largest recipient of foreign direct investment across the world. So India has high potential to attract FDI inflow. There are several benefits in investing in Indian economy like-very bright future, cheap labor and raw materials, sound infrastructure, huge market availability. Easiness in regulatory framework, efficient human resources, investment protect and also efficient promotion mechanisms. The study also reveals that Mauritius emerged as the most dominant source of FDI contributing 77,083.47 US$ million of the total investment in the country. Large part of FDI in India is contributed by fifteen countries which is 185506.59 US$ million. Manufacturing sector accounted for a steeply rising share of FDI stocks in India followed by financial services, construction development, and business services. The money from FDI has allowed India to focus on the areas that needed a boost and economic attention, and address the various problems that continue to challenge the country.

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