

## FOREIGN DIRECT INVESTMENT: THE INDIAN SCENARIO

Dr. Basavaraj S. Kudachimath\*

Vrushali S. Pakhannavar\*\*

### ABSTRACT

Foreign Direct Investment is today become an important tool for managing a country's stability in the market. Foreign Direct Investment is assumed to be a key factor for achieving economic development in a developing economy such as India. FDI has seen a tremendous growth in the last twenty to twenty-five years in the global market. India as an economy has become a major source of foreign investment in the world. We have been witnessing a lot of public and private initiatives for expansion through FDI in the country. This paper has attempted to bring forth the Indian footprint in the world for foreign direct investment. The paper has undertaken the available secondary data for an empirical research in order to emphasize the Foreign Direct Investment scenario in India. This paper tries to put forth a general analysis of the inflows and outflows of FDI in India for a time span from 2007 to 2014. This paper tries to highlight the major sectors attracting foreign direct investment and explores the top investing countries for FDI in India. The paper used charts and figures that showed the trend of FDI inflows in India and the geographical distribution of FDI Inflows. It also gives a synopsis of the top investing countries of FDI in India.

Keywords: FDI, OFDI, India, trend of FDI, Economic development.

\* Associate Professor, Dept. of Management Studies Visvesvaraya Technological University, Jnanasangama Belagavi.

\*\* Lecturer, KLE's College of Business Administration, Lingaraj College, Belgavi.  
Plot No. 5/B, "Siddhi" Subhashchandra Nagar, Tilakwadi, Belgavi

## Introduction

Globalisation during the past two decades has seen a lot of prominent changes and improvements towards development. Foreign direct investment (FDI) has played a multidimensional role in the process of increasing and stabilizing globalization and the overall development of the host economies. FDI has seen a tremendous growth in the last twenty to twenty-five years in the global market. India as an economy has become a major source of foreign investment in the world. It is believed to generate benefits through bringing in non-debt-creating foreign capital resources, technological upgrading, skill enhancement, new employment, spill-overs and allocative efficiency effects.

Post 1991 economic reforms in India, foreign direct investment paved way for a more developed and stable economy. The stable macroeconomic fundamentals, increasing size of the economy and improving investment climate attracted many multinational corporations to invest in India. The Investment of FDI in various states and sectors leads to rapid growth of Indian economy.

After reaching its historic high figure for FDI inflows in India amounting to \$43 billion in 2008, the global financial crisis slowed down the FDI flows to India and value dropped significantly by 2010. But eventually it is seen that FDI in India is picking up its pace with an upward trend. FDI inflows have targeted a wide range of industries in India. The World Bank has placed India as a “Lower middle income” economy, with its Population total 1.252 billion and the GDP as (current US\$) \$1.877 trillion in 2013.

In recent years, firms from service industries such as banking and food services have become increasingly active in overseas markets. The UNCTAD report states that in 2009, 681 foreign affiliates in India with assets of 4.3 trillion rupees (\$89 billion) generated sales worth \$6.2 trillion rupees (\$128 billion), plus 727 million rupees (\$15 billion) exports and 1.1 trillion rupees (\$23 billion) imports.

### Global Perspective about FDI in India:

Ernst & Young’s 2014 Attractiveness survey has mentioned India as the 1<sup>st</sup> global destination for FDI, in terms of the number of FDI projects followed by Brazil and China. This is due to opening up of FDI in various sectors, including multi-brand retail and telecom. The 2013 A.T. Kearney Confidence Index rates India fifth in terms of future prospects for FDI inflows, after

USA, China, Brazil, Canada followed by Australia, Germany, U.K., Mexico, Singapore, Russia and France.

The UNCTAD World Investment Report (WIR) 2013, in its analysis of the global trends in Foreign Direct Investment (FDI) inflows, continues to report India as the third most attractive location for FDI for 2013-2015. The report also mentions that India accounted for more than four fifths of the FDI in South Asia in 2012. The Financial Year 2013 survey of the Japan Bank for International Cooperation, conducted among Japanese investors, continues to rank India as the second most promising country for overseas business operations in the medium term, with Indonesia at the top. For the long-term, India has been rated as the top investment destination, with China being rated as the second.

This paper tries to highlight the pattern of FDI investment in India and the Indian overseas investments outside the country. An empirical research has been adopted to collect all the necessary data for concluding about the foreign direct investment scenario in India, the inflows and outflows, trends, patterns, and prevailing situation. A span of six years is considered from the year 2007 to 2014 as the study time span.

### Objectives of the Study

- To study the global scenario of FDI
- To study FDI in India
- To look at the sectoral distribution of FDI in India
- Growth analysis of total FDI inflows in India from 2007-2013

### Review of Literature

- Mahanta Devajit (2012) has concluded in “Impact of Foreign Direct Investment on Indian economy”, in Research Journal of Management Sciences, that Foreign Direct Investment is seen as a catalyst of economic growth by stimulating domestic investment, increasing human capital formation and by facilitating the technology transfers.
- Dr. K.S.S. Rama Raju in his report titled “Why the Global Meltdown not affected FDI segment in India”, concludes that as a result of the economic policy of 1991, huge amounts

of FDI came into India through NRI, International Companies and various other foreign investors. The growth of FDI in India boosted the economic growth of the country.

- Dr. Subaran Roy (2014) in his article “Foreign Direct Investment and Performance of Indian States” appeared in International Journal of Sciences: Basic and Applied Research, has proved that Indian states which have higher human capital and financial assistance gain more benefits from FDI compared to others and should concentrate on their financial environment and human capital for sustained growth.
- Supriya Chopra and Satvinder Kaur Sachdeva (2014) in their article “Analysis of FDI Inflows and Outflows in India” appeared in Journal of Advanced Management Science, have concluded that FDI encourages the incorporation of new inputs and technologies in the production systems of host countries. The System, procedures and basic infrastructure can be developed to attract more FDI and also things to be taken care of in case of fast track clearance systems and system for legal disputes.
- Somnath Chattopadhyay (2014) in his article named “Distributional Heterogeneity in FDI Inflows into India-A State-level Analysis” published in ICRA Bulletin, said along with the cumulative stock of year-wise FDI inflows factors like the per- capita NSDP, tax rate, road density, etc. are also important and significant determinants of yearly FDI inflows. The policy environment of a state is a crucial determinant for FDI inflows to the state.
- Ms. Parul Mittal and Mr. Sandeep Aggarwal (2012) in their article “Analysis of FDI inflows and outflows in India” published in International Journal of Business Economics & Management Research emphasise that FDI and trade are often seen as important catalysts for economic growth in the developing countries and they conclude that India needs a massive investment to achieve the goals of vision 20-20.

## Foreign Direct Investment

According to the OECD, “Foreign Direct Investment (FDI) is a category of investment that reflects the objective of establishing a lasting interest by a resident enterprise in one economy (direct investor) in an enterprise (direct investment enterprise) that is resident in an economy other than that of the direct investor. The lasting interest implies the existence of a long-term relationship between the direct investor and the direct investment enterprise and a significant

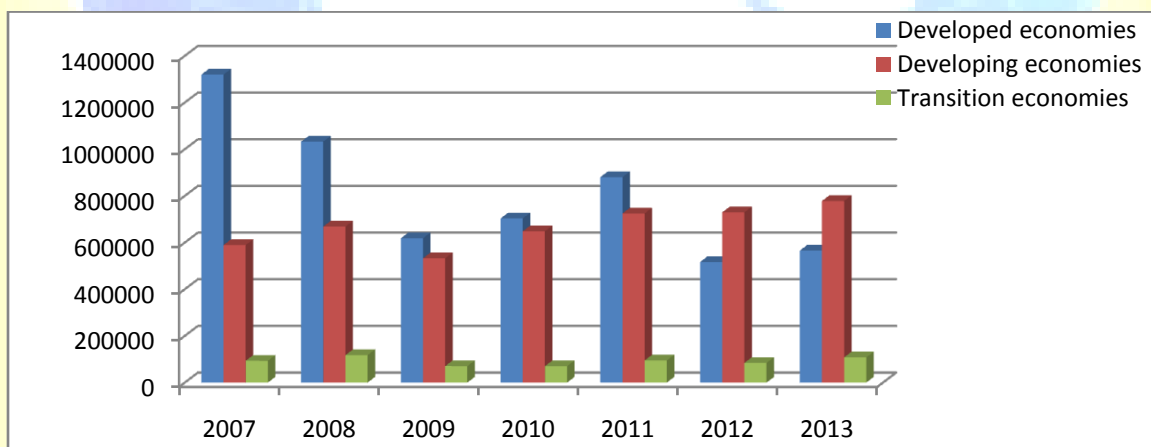
degree of influence (not necessarily control) on the management of the enterprise. The direct or indirect ownership of 10% or more of the voting power of an enterprise resident in one economy by an investor resident in another economy is the statistical evidence of such a relationship.”

### Global Scenario of Foreign Direct Investment

According to the UNCTAD's World Investment Report, the year 2012 had a declining trend of investment. But by 2013 the global FDI returned to growth, with inflows rising 9 per cent to \$1.45 trillion. The analysis of the foreign direct investment inflows for past seven years reveals that the developed economies have a declining trend of FDI inflows. The transition economies seem to have a consistent flow maintained in their FDI inflows. But the developing economies clearly show an upward trend in FDI inflows during the particular time frame. (refer Chart 1)

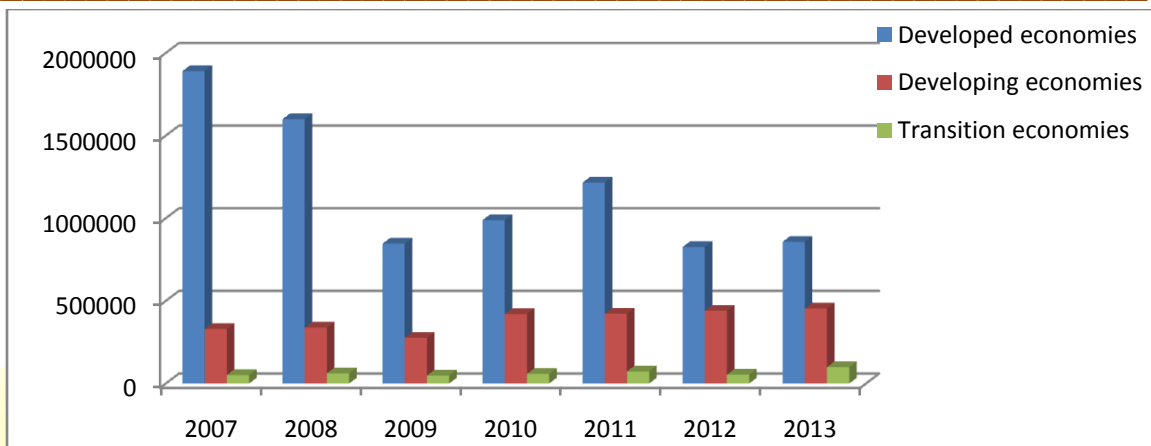
The Outward Foreign Direct Investment (OFDI) depicts a different picture. The developed economies have seen an unstable growth in OFDI whereas the transition economies are seen to be increasing on a sluggish trend. The developing economies on the other hand are observed to be stable in their outward investments. (refer Chart 2)

Chart 1: FDI Inflows, by region and economy, 2008-2013 (Millions of dollars)



*Source: Generated through World Investment Report 2013 and 2014*

Chart 2: FDI Outflows, by region and economy, 2008-2013 (Millions of dollars)



Source: Generated through World Investment Report 2013 and 2014

### Indian Scenario of Foreign Direct Investment

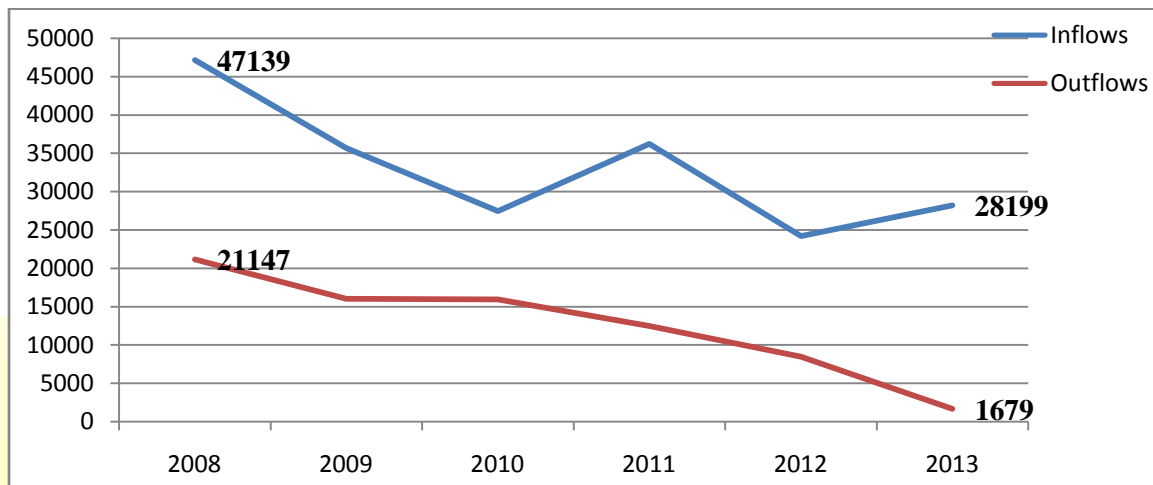
The Government has put in place a liberal policy on FDI, under which FDI, up to 100%, is permitted, under the automatic route, in most sectors/activities. There is a small list of sectors, which are either prohibited for FDI, or are subject to restrictions in the nature of equity caps, entry route or conditionalities.

According to DIPP, Total Cumulative FDI into India, since April 2000 to March 2015, including equity inflows, reinvested earnings and other capital, amounts to US\$ 368,439 million. FDI inflows during the financial year 2014-15 amounted to US\$ 44,877 million. India receives the largest share of foreign direct investment (FDI) inflows in South Asia. This represents an increase of 27% over the FDI equity inflows of US\$ 16.56 billion received during the corresponding period of the previous financial year 2013-14. In the financial year 2011-12 the sum total of equity inflows, reinvested earnings and other capital, was US\$ 36,190 million, US\$ 24,196 million in the 2012-13 and US\$ 28,199 million in 2013-14.

The trend line drawn for the last seven years illustrates an overall negative picture for FDI inflow in India. But it is seen that during the year 2008 the FDI inflow was at a high level of US\$ 47,139 million. This being the span of the global financial crisis may have led to a negative scenario. Gradually it is also observed that the FDI inflow is slowly picking up pace during 2012 and 2013. (refer FDI inflows in Chart 3)



Chart 3: FDI flows in India 2008-2013 (Millions of dollars)



Source: Generated through World Investment Report 2014

The foreign direct investment outflow during the seven year study period shows a poor picture for Indian overseas investment. There was a slight increase in outward investments during 2007-08 but it coincided with the financial crisis of 2007, and thus the outward investments from India saw a declining trend. The trend in India's outward FDI was moderately affected in FY 2010. However, the years 2012 and 2013 witnessed a decline in these investments from \$ 12,456 million in FY 2011 to \$ 8486 million in FY 2012. FDI outflow overall show a declining trend, with the FY 2013-14 showing a mere US\$ 1679 million as the outflow. (refer FDI outflows in Chart 3)

### Countries investing in India

The major countries that invested in India during the research span for seven years include Mauritius, Singapore, Japan, Netherlands, U.S.A. Cyprus, Germany, France and UAE. Mauritius, Singapore and U.K. were observed to be the largest investors in the country. Mauritius has had the largest share of cumulative investment of US\$ 72,995 million in the country for the span of seven years, followed by Singapore with US\$ 30,903 and U.K. US\$ 18,451. Table 1 enlists the top 10 countries investing in India during the years 2007 to 2014.

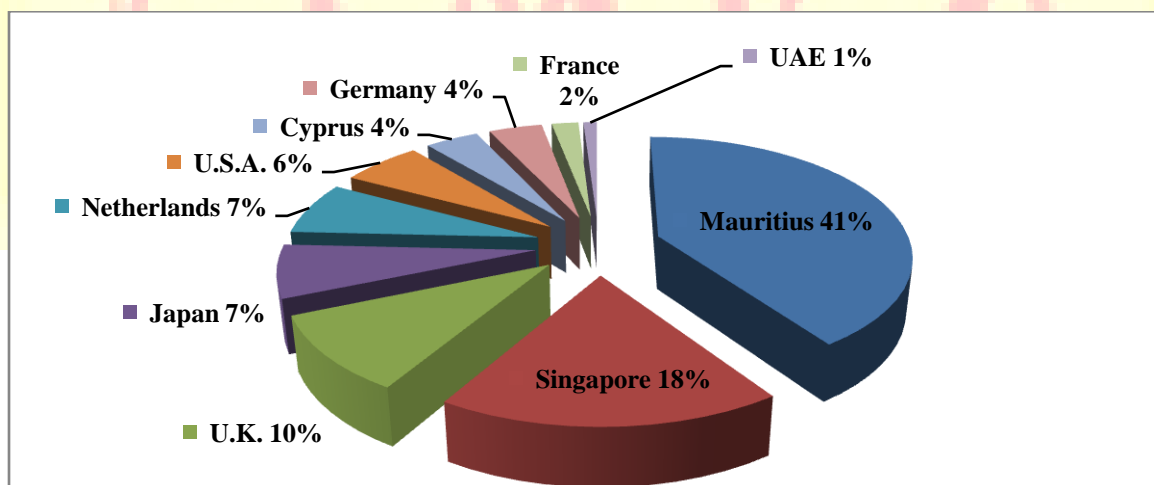
Table 1: Country Ranking for FDI in India

Ranks	Country	Cumulative inflows (2007-08 to 2014-15)		%age to total Inflows (Amount in Rs. Crores)
		in Rs. Crores	in \$ million	
1	Mauritius	359,661	72,995	40
2	Singapore	161,352	30,903	18
3	U.K.	95,279	18,451	10
4	Japan	67,592	12,976	7
5	Netherlands	68,118	10,306	7
6	U.S.A.	51,299	12,661	6
7	Cyprus	38,682	7,893	4
8	Germany	33,846	6,614	4
9	France	19,787	3,898	2
10	UAE	13,286	2,640	1

Source: DIPP Fact Sheets

The percentage analysis of the top 10 countries investing in India revealed that Mauritius has a maximum share of 41% in the total cumulative FDI investment in India followed by Singapore with 18%, U.K. with 10%, Japan and Netherlands with 7% share, U.S.A. with 6%, Germany with 4%, and France and UAE with 2% and 1% respectively. (refer Chart 4)

Chart 4: Country-wise cumulative FDI in India

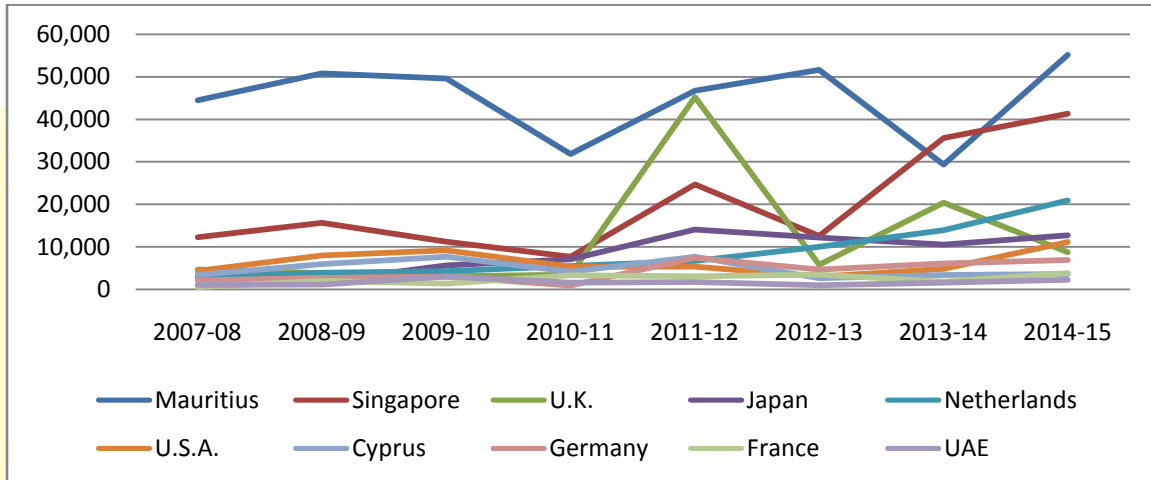


Source: Generated through DIPP Factsheets(2009 to 2015)



The country wise analysis of FDI shows that Mauritius has been the country with the top most FDI investment in India. Singapore has shown a continuous increase pattern of investment in the country. UK is the country with the most fluctuated pattern of investment and other economies show more or less a consistent pattern of investment in India. (refer Chart 5)

Chart 5: Country-wise pattern of FDI in India



Source: Generated through DIPP Factsheets(2009 to 2015)

### Sector-wise analysis of FDI in India

The paper tried to analyse prominent sectors in India where maximum FDI was attracted. For the research period of seven years it is analysed that the services sector in the country is attracting maximum cumulative foreign direct investment amounting to US\$ 35,730 followed by Construction Development sector with US\$ 13,838 million and Telecommunications sector with US\$ 14,526. The other sectors that attracted a huge amount of FDI include Computer Software & Hardware, Drugs & Pharmaceuticals, Automobile Industry, Chemicals (Other Than Fertilizers), Power, Metallurgical Industries and Trading. Table 2 portrays the top 10 sectors receiving maximum amount of FDI investments in India during the research time span of 2007-2014.

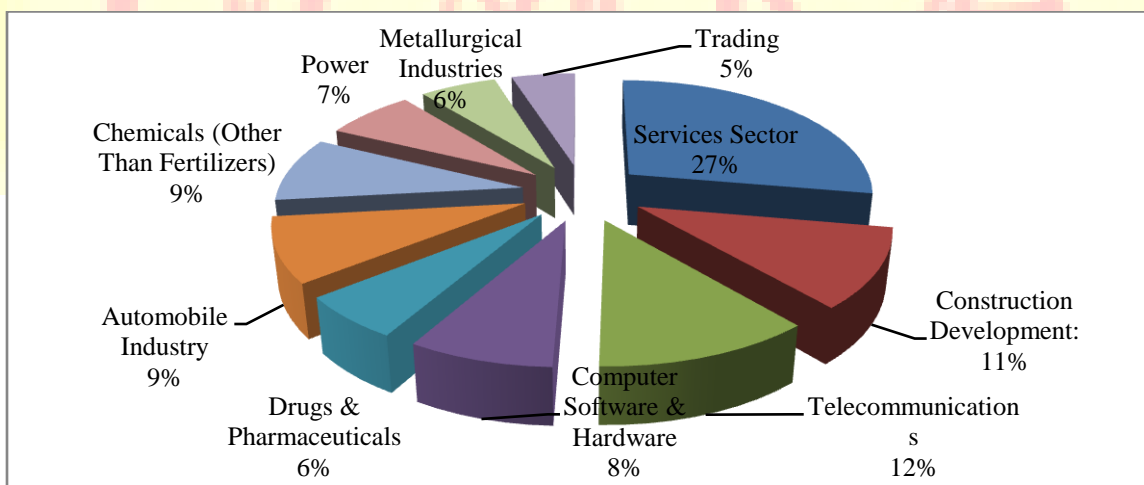
Table 2: Sector-wise ranking for FDI in India

Ranks	Sector	Cumulative inflows (2007-08 to 2014-15)		%age to total Inflows (Amount in Rs. Crores)
		in Rs. Crores	in \$ million	
1	Services Sector	174,217	35,730	28
2	Construction Development	67,239	13,838	11
3	Telecommunications	72,667	14,526	12
4	Computer Software & Hardware	47,550	9,347	8
5	Drugs & Pharmaceuticals	38,985	7,579	6
6	Automobile Industry	57,218	10,909	9
7	Chemicals (Other Than Fertilizers)	54,523	10,833	9
8	Power	41,296	8,407	7
9	Metallurgical Industries	38,424	7,948	6
10	Trading	29,054	4,822	5

Source: DIPP Fact Sheets

The percentage analysis for the sector specific cumulative FDI revealed that the services sector received the maximum percentage of 27%, followed by Construction Development sector with 11% and Telecommunications sector with 12%. (refer Chart 6)

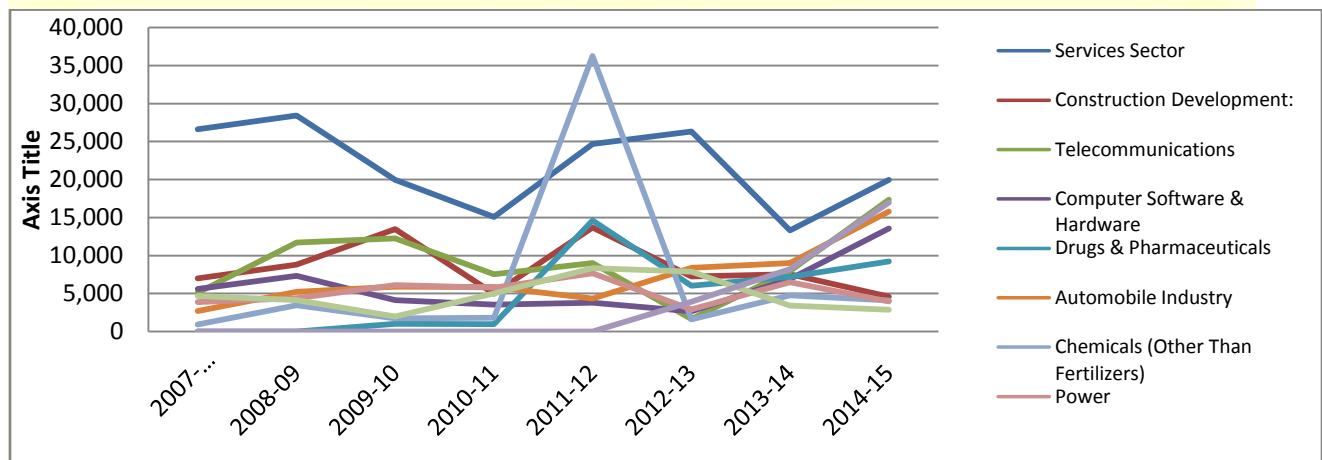
Chart 6: Sector-wise cumulative FDI in India



Source: Generated through DIPP Factsheets(2009 to 2015)

The sector-wise pattern of investment in India shows that in the recent years service sector is seems to be leading in attracting FDI in the country. The telecommunications sector had a sluggish trend till 2012 but then it is picking up pace for attracting more FDI. The Chemicals sector is more or less consistent in receiving investments, only in the year 2011-12 it saw a substantial increase in FDI received. However the Trading sector shows the most promising picture with an upward trend from 2011-12. All the other sectors are successful in attracting the maximum amount of FDI in the country. (refer Chart 7)

Chart 7: Sector-wise pattern of FDI in India



Source: Generated through DIPP Factsheets(2009 to 2015)

## Conclusion

The UNCTAD states that the analysis of the foreign direct investment inflows shows the developed economies have a declining trend and the developing economies clearly show an upward trend in FDI inflows. India receives the largest share of FDI inflows in South Asia. The trend line drawn for the last seven years illustrates an overall negative picture for FDI inflow in India. But gradually it is also observed that the FDI inflow is slowly picking up pace during 2012 and 2013. The foreign direct investment outflow for India is going through a declining stage and it has to be revived. The analysis of countries investing in India revealed that Mauritius has a maximum share in the total cumulative FDI investment in India followed by Singapore U.K. The percentage analysis for the sector specific cumulative FDI revealed that the services sector received the maximum percentage of FDI followed by Construction Development sector and Telecommunications sector. If the pattern of upswing in FDI continues, India will be witnessing an increasing foreign investment maintaining its position as the most attractive destination for FDI in the world.

## References

- ICRA. (2014, November). Distributional Heterogeneity in FDI Inflows into India A State-level Analysis. *ICRA Bulletin Money & Finance* . ICRA.
- NCAER. (2009). *FDI in India and its Growth Linkages*. New Delhi: DIPP, Ministry of Commerce and Industry, Government of India.
- Department of Industrial Policy and Promotion. (2014). [http://dipp.nic.in/English/Publications/FDI\\_Statistics/FDI\\_Statistics.aspx](http://dipp.nic.in/English/Publications/FDI_Statistics/FDI_Statistics.aspx). Retrieved March 2014, from dipp.nic.in.
- Annual Report 2014-15 Government of India Ministry of Commerce and Industry Department of Industrial Policy & Promotion
- <http://www.ibef.org/economy/indian-investments-abroad>
- [www.unido.org](http://www.unido.org)
- Wellington, S. J., & Jammu, S. (2014). Foreign Direct Investment and Performance of Indian States. *International Journal of Sciences: Basic and Applied Research (IJSBAR)* .
- Devajit, M. (2012). Impact of Foreign Direct Investment on Indian economy. *Research Journal of Management Sciences* .
- Dr. Roy, S. (2014). Foreign Direct Investment and Performance of Indian States. *International Journal of Sciences: Basic and Applied Research* .
- Pradeep. (2011). Trends and Patterns of FDI in India: An Analysis. *International Journal of Research in Commerce, Economics & Management* .
- Wellington, S. J., & Jammu, S. (2014). Foreign Direct Investment in India. *International Journal of Econometrics and Financial Management*.
- Ms. Parul Mittal and Mr. Sandeep Aggarwal, (2012). Analysis of FDI inflows and outflows in India. *International Journal of Business Economics & Management Research*.