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

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ABSTRACT

FDI plays a very important role in the economic development of a country. It allows the countries to attract the foreign companies or business entities to invest in the domestic country. This article offers a thorough overview of trends and patterns of Foreign Direct investment flow in India witnessed over a given period of time. Foreign direct investment (FDI) has exploded in the recent two decades. More foreign direct investment means more opportunities for developing nations to improve their economies. From 1991 to 2008, India attracted a significant quantity of foreign direct investment (FDI) owing to its massive market size, variety, low labor costs, and high human capital reserves. From 1991 to March of 2010, India received a total of Rs. 577108 crore in foreign direct investment. Increases in foreign direct investment (FDI) have boosted India's economy as a whole, helping its services, manufacturing, and industrial sectors in particular.

Keywords: - FDI, FDI Inflows, GDP, GNP, Economic Reforms, NRI's, Liberalization etc.

INTRODUCTION

A notable and visible aspect of today's globalized world is the meteoric rise of foreign direct investment (FDI) in both industrialized and developing nations. Foreign direct investment (FDI) inflows have increased at a rate that has outpaced almost every other measure of global economic activity over the last two decades. Foreign direct investment (FDI) is widely regarded as the most secure form of external finance, especially by developing nations, because it not only boosts growth by supplementing domestic savings and foreign reserves, but also by increasing innovative capacity and domestic competition through spillovers of technology and skilled labor. Foreign direct investment (FDI) now plays an important role in the process of global economic integration.

India is the 7th biggest and second most populous nation in the world and it is located in South Asia. India has always stood out due to its unique cultural mix, welcoming population, and geographical convergence. The biggest democracy in the world is now a major player on the international stage as a provider of goods and services. India has emerged as a potential partner to global business because to its pool of technical capabilities, its foundation of an English-speaking population with rising disposable money, and its developing market. Recently, India has seen an increase in investment prospects.

Foreign direct investment (FDI) is pouring into India's diversified economy because of the country's big market, cheap wage rate, and abundant human resources (which has benefited immensely from outsourcing of work from developed countries). Both the country's economy and its commerce have flourished in the current decade to heights never seen before in Indian history. India's Gross Domestic Product measures the size of the country's potential consumer market. Gross national product (GNP) and GDP both provide estimates of an economy's potential market size (the gross national product). Gross National Product is the market value of all final output plus net factor income from abroad. Gross refers to an estimate of GDP that does not subtract for wear and tear. Gross domestic product is the unadjusted sum of all the money values of goods and services produced by all sectors of the economy in a certain time period, usually a year. The value of all the products and services produced inside a nation in a certain time period, usually a year, is referred to as the gross domestic product (GDP). Hence, GDP is a functional version of GNP less the net factor income from outside. GDP in India is measured both at factor cost and at market price. The gross domestic product (GDP) at market prices is the total monetary worth of all final products and services produced within a nation's borders in a particular accounting year. Just like GDP at market prices, GDP at factor cost is GDP less indirect taxes and subsidies. GDP at factor cost is the total national revenue less the value added by all of the elements of production.

As an added note, GDP may be computed using either (a) Current prices or (b) constant prices. It is called GDP at current prices if the estimate is based on market pricing. GDP at constant prices, on the other hand, is determined by using the prices from a certain base year.

In a dynamic economy, prices may change rapidly in response to local and global market variations. Estimates of GDP at current prices must be transformed into GDP at constant prices before variations may be isolated. The growth in GDP due to inflation can't be considered "real" growth in GDP. GDP at current prices is adjusted to GDP at constant prices using the base year to provide an approximation of real GDP. To go from GDP (gross domestic product) at current prices to GDP (GDP) at constant prices, a GDP deflator is used. Constant price Gross Domestic Product (GDPFC) is used as an explanatory variable in this research to help understand the overall pattern of FDI into India.

OBJECTIVES

1. To study the trends and patterns of flow of FDI.
2. To assess the determinants of FDI inflows.
3. To evaluate the impact of FDI on the Economy

Methodology:-

The present study is based on the secondary data collection from various published and unpublished sources like, Reserve Bank of India News Bulletin, various journals, Economic survey report, etc.

Trends and Patterns of FDI flow in India

Due to the economic reforms made by the government of India in 1991, the nation now boasts the world's fourth-largest economy and the world's second-fastest expanding GDP. Even more impressively, India boasts the third greatest pool of scientific and technical talent and is the 11th largest economy in terms of industrial production. From the 1950s until the 1990s, the economy was closed, characterized by extensive regulation, protectionism, and public ownership, all of which contributed to pervasive corruption and slow growth. Since 1991, however, economic liberalization has continued, and its general direction has remained consistent regardless of the ruling party.

The Indian economy has grown by more than 9% for the last three years in a row, and by 7% or more annually for the past decade. 2008 saw \$175.7 billion in exports and \$287.5 billion in imports. The percentage of India's imports covered by exports increased steadily between 1990 and 2008, reaching 81.3% in 2008 and 66.2% in 1990–1991. There has never been a positive balance of payments on India's current account since independence. Increased foreign direct investment (FDI), deposits from non-resident Indians (NRIs), and commercial borrowings have all contributed to a positive balance of payments for India since 1996–97. Both the budget deficit (from 4.5 percent in 2003–04 to 2.7 percent in 2007–08) and the revenue shortfall (from 3.6% to 1.1 percent) have decreased.

The outcome was a 55 percent growth in India's foreign currency reserves in 2007-08, to a total of US \$309.16 billion, up from US \$199.18 billion at the conclusion of the previous fiscal year, 2006-07. The proportion of GDP attributed to domestic saving rose sharply from 29.8 percent in 2004-05 to 37.1 percent in 2007-08. In 2007, India's GDP reached \$1 trillion, a new all-time high. There is a growing consensus and commitments among political parties to follow liberal foreign investment policy that invite steady flow of FDI in India so that sustained economic growth can be achieved, and as a result, FDI in India has increased dramatically since 1991, regardless of the ruling party over the years. In addition, quantitative data on the overall scope of FDI and its sectoral and geographical distribution is required for research on the influence of economic reforms and FDI policy on the size of FDI inflows.

There are five main categories under which actual FDI inflows into India are welcomed: (i) the Foreign Investment Promotion Board's (FIPB) discretionary approval route for larger projects; (ii) the automatic approval route established by the Reserve Bank of India; (iii) the acquisition of shares route (in effect since 1996); (iv) the RBI's non-resident Indian (NRI) scheme; and (v) the external commercial borrowings (ADR/GDR) route. An examination of FDI inflow patterns over the last 18 years reveals a consistent influx of FDI up to 2004 followed by a meteoric ascent in FDI inflows beginning in 2005.

In addition, the actual FDI flows into India through the different channels are outlined. The Foreign Investment Review Board (FIRB) path - represents major projects that need substantial incoming funds and are subject to governmental discretion. However, the FIRB method is seeing a little decrease in its market share in comparison to the RBI's automated route and the way of acquiring existing shares. Foreign direct investment (FDI) inflows have been on the rise since 1995, when the RBI introduced an automatic clearance procedure. This option is best for less substantial investing endeavors. The popularity of using external commercial borrowing and the acquisition of existing shares has been on the rise since 1999 and 2003, respectively. Foreign direct investment (FDI) via nonresident Indians (NRIs) has been steadily diminishing, though. From 1991 to 1999, India was not successful in luring a significant quantity of foreign direct investment (FDI). Inflows of foreign direct investment (FDI) peaked in 1997 at US$ 3621.34 million, up from a low of US$ 144.45 million in 1991. After dropping to US $2205.64 million in 1999, these inflows surged the following year. Foreign direct investment (FDI) has been on the rise since 2004 and reached a respectable US$ 33029.32 million in 2008, with the exception of 2003, which shows a minor dip. From 1991 to 2008, the economy grew at an annualized rate of 40% (compound), with 2008 showing a particularly rapid increase of 107% over the previous year. Foreign direct investment (FDI) into India rose in 2008 as a result of the country's strong economic performance and ongoing development, factors that boosted investor confidence in the market despite the global economic downturn. Nonetheless, India's FDI inflows have moved at a more leisurely rate compared to China, Singapore, the Russian Federation, and Brazil.

There is a significant discrepancy between the volume of permitted FDI and the amount that actually materializes as inflows, as shown by a comparison of the two. The amount of investment promised vs the amount actually received during 2005–06 is over 40% off. Regulatory, procedural, government approvals, a lack of suitable infrastructural facilities, delays in the execution of projects, and a lack of cooperation from the state government are only some of the variables that might affect the situation.

The lack of adequate infrastructure support and facilities is a major reason why many long-term initiatives with international cooperation are either significantly delayed or even refused. These are some of the factors that may explain why the ratio of approvals to actual inflows is so low. In spite of this, there has been an overall rise in the number of international partnerships since 1991. The ratio of financial partnerships to technical ones has clearly been on the rise.

Cooperation which show that financiers value monetary partnerships more than technical ones. There may have been an uptick in financial cooperation since government investment standards were loosened.

Services and Electrical & Electronics together have drawn in US$ 30,421 million in foreign direct investment (FDI) in India, or around 32% of the total FDI. In 2008, India emerged as a leading destination for foreign direct investment (FDI) in the services industry. The export of services is a crucial factor in boosting exports. Considering the growth of the service industry, India should welcome foreign investment in its export-oriented services, which might boost the demand for low-skilled employees and the wages they command. From August 1991 to December 2008, the top five industries received a total of US$50,479 million in foreign direct investment (FDI), or 53.2% of the total FDI. About 40.8% of these FDI inflows are invested in strategic sectors including services, electrical equipments, telecommunications, etc.

SOURCES OF FDI IN INDIA

During the reform era, India has increased the variety of countries from which it receives foreign direct investment. As of 2008, 120 nations have invested in India, up from 15 in 1991. This means that once the reforms were implemented, India saw a rise in the number of nations investing in the country. After economic liberalization, numerous previously unrepresented nations, such as Mauritius, South Korea, Malaysia, the Cayman Islands, Italy, France, and Japan, have joined the ranks of the world's top investors.

MAJOR SOURCES OF FDI IN INDIA

Mauritius	USA	Singapore	UK	Netherlands	Japan	Germany	Cyprus	France	Switzerland
39.9	8.8	7.2	6.1	4.4	3.4	2.9	2.1	1.5	1.1

Source: compiled & computed from the various issues of Economic Survey, RBI Bulletin, and Ministry of Commerce.

Above table shows information of the top nations investing in India between 1991 and 2008. From 1991 through 2008, India's biggest foreign investment came from Mauritius. Since 1995, Mauritius has been at the forefront of India's foreign direct investment (FDI) landscape, accounting for around 39.9 percent of the country's overall FDI. The Double Taxation Treaty (also known as a Double Taxation Avoidance Agreement or DTAA) between the two nations is largely responsible for Mauritius's monopoly on this practice. Additionally, a DTAA-style tax pact has been hammered out with Singapore.

In terms of foreign direct investment, the United States is second behind India's home nation, China. Comparing the investments made by the two nations reveals an intriguing fact: India receives far more foreign direct investment (FDI) from the United States than it does from Mauritius. Foreign direct investment (FDI) coming into Mauritius from the United States is twice that of any other country. Singapore is one of the other significant players, accounting for 7.2% of the pie, and is followed by the United Kingdom, the Netherlands, Japan, Germany, Cyprus, France, and Switzerland.

This means that just five nations contributed for roughly 66% of the total FDI inflows into India during the previous eighteen years. To push forward its mission of transformation (from a controlled economy to an open market), to address the BOP imbalance, to speed up economic development, and to ensure its continued expansion, India will need vast sums of money.

DISTRIBUTION OF FDI WITHIN INDIA

Mumbai (US$ 26899.57 mn) and Delhi (US$ 12683.24 mn) get the lion's share of India's foreign direct investment. Foreign direct investment (FDI) is also flowing into major cities like Bangalore, Ahmedabad, and Chennai. Foreign direct investment (FDI) into India is concentrated on just these five cities. Between 2000 and 2008, the two cities of Mumbai and Delhi accounted for 50% of India's total foreign direct investment (FDI).

In addition to the United Kingdom (17%), the United States (10%), Singapore (9%) and Germany (4%), Mauritius (29%) was the largest investor in Mumbai.

Services (30%), IT (12%), utilities (7%), metals (5%), and cars (4%). From 1991 to 2008, 1371 technological cooperation were established in Mumbai. Among the countries that have invested in Delhi, Mauritius has gotten the most money (58%), followed by Japan (10%), the Netherlands (9%) and the United Kingdom (3%). While the automotive sector accounts for 8% of FDI to the Delhi area, telecommunications accounts for 19%, followed by services (18%), housing and real estate (11%), and IT (6%). There were 315 technological cooperation between 1991 and 2008 that took place in Delhi.

Mauritius contributed significantly to Bangalore's investment (40%) by itself. Aside from Japan, China, and South Korea, the United States, the Netherlands, Germany, and the United Kingdom also rank among Bangalore's top five nations of investment. Computer software and hardware (22%), services (11%), real estate (10%), telecommunications (5%), and fermentation industries (4%) are the top sectors reporting FDI inflows. Between 1991 and 2008, 516 different technological partnerships were established in Bangalore. For example, 37% of Chennai's FDI came from Mauritius, 14% from Bermuda, 13% from the United States, 9% from Singapore, and 4% from Germany. Construction activities (21%), telecommunications (10%), services (10%), computer software and hardware (7%), and the car industry (7%) are the top recipients of foreign direct investment. In the field of technology, Chennai racked up 660 partnerships between 1991 and 2008.

Conclusion:- The research paper was mainly focused on the study of FDI in India and the patterns of investment in India. It also focused on the FDI on different sectors of the economy. The research shows that Mumbai and Delhi get the lion's share of India's foreign direct investment. Countries like Mauritius, USA and Singapore were among the leading sources of FDI in India.

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