



An overview on foreign direct investment in India from 2000-2014

Dr. Mukesh Kumar

Department of Economics, MDU Rohtak, Haryana, India

Abstract

Foreign Direct Investment (FDI) is a key component of national development strategies for all most all the countries over the Globe. FDI is considered as life blood of economic development as far as the developing nations are concerned. It is a key factor for growth of economy. During last fifteen years FDI trends shows that India is the best destination for FDI. Foreign investment would bring attendant advantages of technology transfer, marketing expertise, introduction of modern managerial techniques and new possibilities for promotion of exports. FDI is needed for the interest of the country's industrial development. In the recent time FDI is considered to be the most attractive type of capital flow for India's emerging economies as it is expected to bring latest technology and enhance production capabilities of the economy. This paper discusses the trend of FDI from 2000-01 to 2013-14 and evaluate its impact on Trade, GDP, Foreign exchange. It makes an attempt to throw some light on importance of FDI and also reveals about factors which works as barriers in FDI inflows.

Keywords: foreign direct investment, FDI inflow, FII, BPO

Introduction

An overview on Foreign Direct Investment in India from 2000-2014 The historical background of FDI in India can be traced back with the establishment of east India Company of Britain. British capital came to India during the colonial era of Britain in India. Before independence major amount of FDI came from the British Companies. After Second World War, Japanese companies entered into the Indian market and enhanced their trade with India, yet U.K remains the most dominant investor in India. Foreign Direct Investment (FDI) in India has played an important role in development of Indian economy. India has achieved a lot of financial stability, growth and technical skills through FDI. It is a external finance which is boost for economic activity. FDI is considered to be one of the remarkable economic indexes to measures of increasing globalization. In the last two decades the pace of FDI are increasing faster than rest of all other economic activity. FDI may give the opportunity to a developing country to bring non-debt creating foreign capital resources, technology up gradation, skill enhancement, new employment, spillovers and allocative efficiency effects.

FDI is important for capital formation and filling the gap between domestic saving and investment. However, it is not only finance for domestic saving & reserves. Now, FDI has become an instrument of international economic integration. Indian economy had experienced new economic reforms known as Liberalization, Privatization and Globalization. This period of economic transition had meaningful impact on the all over economic development in all sphere of economy. India has been attracting FDI especially during post reform period. This paper discusses the trend of FDI from 2000-01 to 2013-14 and evaluate its impact on Trade, GDP, Foreign

exchange. It makes an attempt to throw some light on importance of FDI and also reveals about factors which works as barriers in FDI inflows. Various studies have been carried out on FDI all over the world with different perspectives. In this chapter the existing literature on the topic FDI have been reviewed.

Kr Pardeep (2011) analyzed a study on "Impact of Foreign Direct Investment in India". The study covered the time period of 19th year ranging 1991 to 2010. The study was based on secondary data. The study used various statistical tools like Least Square method for trend analysis and correlation. The study tries to examine that the foreign direct investment in India is a crucial factor for the economic growth. The pre economic liberalization period was challenge for the Indian economy to grow because there were many constraints to overcome. The draconian act like FERA cause many companies to withdraw from the Indian market. But the post liberalization period was very fruitful for the Indian economy to head with a swift pace. Now India is moving along very nicely with around 9 per cent GDP rate. The study suggested India's foreign investment policy makers need to look back and access the impact of FDI on India and its economic growth. The study concluded that India is one of the greatest destinations for the investors as more and more investors are investing in India. The equity inflow is increasing tremendously due to high GDP growth, low man power cost, abundance of resources and favorable investment policies of the government.

Mr. Goel Shashank, Mr. Kumar K. Phami and Mr. Rao K Sambasiva (2012) conducted a study on "Trends and patterns of FDI in India and its economic growth". The study covered the time period of 19th year ranging from 1991 to 2010. The

study was based on secondary sources like RBI Report on currency finance, newspaper and magazine sources and UNCTAD World Investment Report. The study used various mathematical tools like annual growth rate and compound annual growth rate. The study analyzed that Foreign Direct Investment is an important and vital component of development strategy in both developed and developing nations. In fact Foreign Direct Investment provides a win and win situation to the host and home country. The study also revealed that FDI is a significant factor influencing the level of economic growth in India. It helps in increasing the trade in the international market. The study concluded that FDI provides a sound base for economic growth and development by enhancing the financial position of the country. It also contribution to the GDP and Foreign exchange reserve of the country.

Ghoshal M. and Saxena Shilpi (2012) analyzed a study on ‘‘Roll of Foreign Direct Investment in Indian small scale industries. The study was based on secondary sources. The study showed that foreign direct investment plays an important role in a country’s economical activities. The study found that small scale industries and small and medium enterprises have to depend on the foreign resources for financial and technological support. The study revealed that FDI plays an extraordinary and growing role in global business. It can provide firm with new market and marketing channels, cheaper production facilities, access to new technology products, skills and financing. The study concluded that the small scale industries facing problems are regarding problem of raw material, problem of finance, problem of marketing, problem of under cultivation of capacity outdated technology and absence of vertical growth.

Ray Sarbapriya (2012) examined a study on ‘‘Impact of Foreign Direct Investment of Economic Growth in India’’. The study was based on secondary data. The data collected annually from the period 1990-1991 to 2010-2011 which include the 21 annual observations. This study made an attempt to analyze the causal relationship between FDI and economic growth of India. The study also revealed that the empirical analysis based on Least Square method and this method suggested that there is a positive relationship between FDI and GDP. The study showed that the effect of FDI on growth rate of output was constrained by the existence of diminishing returns of physical capital. The study concluded that FDI has not contributed much to the economic growth of India for the time period 1990-1991 to 2010-2011. The study suggested that the government of India to make a policy for attracting FDI in such a way that it should be more growth enhancing than retarding.

Mahanta Devajit (2012) ^[10] analyzed a study on ‘‘Impact of Foreign Direct Investment on Indian Economy. The study was based on secondary data. The study showed that FDI is strategic component of investment is needed by India for achieving the economic reforms and maintains the pace of growth and development of the economy. The study tries to found out that FDI seen as an important economic catalyst of Indian economic growth by stimulating domestic investment, increasing human capital formation. The study revealed that

FDI may also affect due to the government trade barriers and policies for the foreign investment. The study showed that after independence in India the FDI gained attention of the policy makers for acquiring advanced technology and to mobilize foreign exchange resources. The study concluded that FDI can help to raise the output, productivity and export at the sectoral level of the Indian economy.

Dr. Singh Jasbir, Mr. Chadha Sumita and Dr. Sharma Anupama (2012) analyzed a study on ‘‘Role of Foreign Direct Investment in India. The study was based on secondary data like reports and publication of govt. and RBI relating to foreign investment, economic journals, books, magazines and internet etc. The study revealed that maximum global investment flows are attracted by the developed country rather than developing and under developing countries. Foreign investment flows are supplementing the scarce domestic investments in developing countries particularly in India. The recommended that we should welcome the inflow of foreign investment because it enable us to achieve our cherished goal like making favorable the balance of payment, rapid economic growth, removal of poverty and internal personal disparity in the development. The study concluded that we should provide the better environment for attracting the foreign investment through direct and indirect methods and welcome.

Objective of the Study

- To understand the trends of FDI Inflows from 2000-2014
- To understand the factors influencing FDI inflows in India

Research Methodology

The study is based on secondary data and the data has been collected from different publication of RBI, publications from Ministry of Commerce, Govt. of India.

Model Building

To study the factors influencing the FDI inflow in India the following model has been used

$$FDI = A + B_1X_1 + B_2X_2 + B_3X_3 + E \quad \text{-----(1)}$$

Where,

FDI- Foreign Direct Investment

A- Constant

B1-B3 – Various regression Parameters to be estimated

X1- Trade GDP

X2- Reserves GDP

However, India is far behind to attracting FDI as comparison to other countries. This paper explains diversity and variation in trends and pattern of FDI in India in different states as well as various sectors of economy. It gives a comparative analysis of FDI trend during 2013-14.

Trends and pattern of FDI in India

After 1991 reform, Indian domestic economy had accumulated considerable capacity in industrialization which is highly influence by FDI as well as investment made by domestic entrepreneurs. The liberal government policies have important role in attracting FDI. India has been classified as

prominent attractive designations in all international organization. India offers a pool of skilled labour and immense opportunities for business process outsourcing. Table 1.1 indicates the rate at which FDI inflow has grown during 2000 to 2014 is a clear indication that India is emerging as an attractive destination for overseas investors. Table-1.1 illustrate that the value of India's FDI increased from 4.02 US \$ Million to 28.80 US \$ Million during last fourteen year. During this period it has not been increasing

continuously. During the financial year 2001-02 total 6.13 US\$ Million FDI has been made in India, registering the growth rate 52 per cent over the value of previous year. It has been declined during 2002-04 with declining rate 16 per cent. Further it has been increased in 2004-05 and 2005-06 with increasing rate 40 per cent and 48 per cent respectively. It has been continuously increasing till 2008-09 and declining in next two financial years 2009-11.

Table 1.1: Total FDI and FII's in India during 2001-2014 (In US \$ million)

Financial year	Total FDI inflows (in US \$ million)	%age over previous year	FII'S
2000-01	4029	-	1.847
2001-02	6130	(+) 52 %	1.505
2002-03	5035	(-) 18 %	0.377
2003-04	4322	(-) 14 %	10.918
2004-05	6051	(+) 40 %	8.686
2005-06	8961	(+) 48 %	9.926
2006-07	22826	(+) 146 %	3.225
2007-08	34843	(+) 53 %	20.328
2008-09	41873	(+) 20 %	(-) 15.017
2009-10	37745	(-) 10 %	29.048
2010-11	34847	(-) 08 %	29.422
2011-12	46556	(+) 34 %	16.812
2012-13	36860	(-) 21%	27.583
2013-14	28807	-	-
Total	318885	-	144,654

Source: (1) including amount remitted through RBI's-NRI Schemes (2000-2002).

(ii) FEDAI (Foreign Exchange Dealers Association of India) conversion rate from rupees to US dollar applied, on the basis of monthly average rate provided by RBI (DEPR), Mumbai.

Table 1.2: Total FDI, GDP, Trade and Foreign Reserve in India during 2001-2014 (In Crore)

Financial year	Total FDI inflows (in Crore)	GDP	Trade	Foreign Exchange Reserve
2000-01	10,733	23,48,481	4,34,444	1,97,204
2001-02	18,654	2,474,962	4,54,218	2,64,036
2002-03	12,871	2,570,935	5,52,343	3,61,470
2003-04	10,064	2,775,749	6,52,475	1,90,129
2004-05	14,653	2,971,464	8,76,405	6,19,116
2005-06	24,584	3,253,073	1,116,827	6,76,387
2006-07	56,360	3,564,364	1,412,285	8,68,222
2007-08	98,642	3,896,636	1,668,176	1,237,965
2008-09	142,829	4,158,676	2,072,438	1,283,965
2009-10	123,120	4,516,071	2,209,270	1,259,665
2010-11	97,320	4,918,533	2,826,398	1,361,013
2011-12	165,146	5,247,530	3,811,422	1,506,139
2012-13	121,907	5,482,111	4,303,481	1,589,118
2013-14	147,518	5,741,791	4,608,364	1,828,375

Source: Central Statistical Organisation (CSO) - 31.10.2014

Table 1.3: Result of FDI Inflow Model

Variables	Co-efficient	Standard Error	t-statistic
Constant	27.14	0.13	213*
Trade-GDP	13.13	7.1	1.3*
Reserve-GDP	1.32	4.0	0.37

Note: * = Significant at 0.25, 0.10 levels; ** = Significant at 0.25 level.

In Foreign Direct Investment Model, it is found that all variables are statistically significant. Further the results of

Foreign Direct Investment Model shows that TradeGDP, and Reserves GDP (RESGDP) are the important macroeconomic determinants of FDI inflows in India. The regression results of above shows that TradeGDP, ReservesGDP, Financial Position, exchange rate are the pull factors for FDI inflows in the country. In other words, all variables included in the foreign direct investment model shows their predicted signs.

Factors responsible for low FDI in India

India, the largest democratic country with the second largest

population in the world, with rule of law and a highly educated English speaking work force, the country is considered as a safe haven for foreign investors. Yet, India seems to be suffering from a host of self-imposed restrictions and problems regarding opening its markets completely to global investors by implementing full scale economic reforms. Here, we discuss some of the major impediments for India's poor performance in the area of FDI.

1. Lack of adequate infrastructure

Poor infrastructure is a major issue for FDI inflows into India. This bottleneck in the form of poor infrastructure discourages foreign investors in investing in India. India's biggest infrastructure problem is the supply of electricity and transport facilities. Power cuts and costly transport are considered as a common problem and many industries are forced to close their business and delayed supply of finished products.

2. Labor laws

According to laborers laws of economy any large firms or even medium firm which is employing more than 1000 employee in India are not allowed to retrench or layoff any workers, or close down the unit without the permission of the state government. These laws protect the workers as well as increase unproductive hours in business which leads inefficiency. To retrench unnecessary workers, firms require approval from both employees and state governments-approval that is rarely given. Further, Trade Unions extort huge sums from companies and put unnecessary demand.

3. Corruption

Corruption is found in nearly every public service in India, from higher administration to distribution of subsidized food to the poor people. The combination of legal hurdles, lack of institutional reforms, bureaucratic decision-making and the allegations of corruption at the top have turned foreign investors away from India.

4. Lack of decision making authority

The reform process of liberalizing the economy is concentrated mainly in the Centre and the State Governments are not given much power. In most key infrastructure areas, the central government remains in control. Brazil, China, and Russia are examples where regional governments take the lead in pushing reforms and prompting further actions by the central government.

5. Limited scale of export processing zones

India's export processing zones have lacked dynamism because of several reasons, such as their relatively limited scale; the Government's general ambivalence about attracting FDI; the unclear and changing incentive packages attached to the zones; and the power of the central government in the regulation of the zones. India which established its first Export Processing Zone (EPZ) in 1965 has failed to develop the zones when compared to China which took initiative for establishment only in 1980.

6. High corporate tax rates

Corporate tax rates in East Asia are generally in the range of 15 to 30 percent, compared with a rate of 48 percent for foreign companies in India. High corporate tax rate is definitely a major disincentive to foreign corporate investment in India.

7. Political instability

There were too many anomalies on the government side during past two decades and they are still affecting the direct inflow of FDI in India such as mismanagement and oppression by the different company, which affect the image of the country and also deject the prospective investor, who is very much conscious about safety and constant return on their investment.

Conclusion

FDI is an external finance for developing country to develop technology, managerial skills and capacity. Its equally important for developed countries. It is considered as a path for accessing market of developing countries. However inflows of foreign direct investment have increased significantly as compared to earlier regime. Economic reforms were aimed at improving India's FDI records. The liberalization phase of Indian economy improved the investment climate which overcomes earlier failure. It is observe from the result of above analysis that Trade-GDP and Reserve-GDP are main determinants of FDI with exchange rate. 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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