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An Evaluation of Foreign Direct Investment in India

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Abstract

FDI benefits domestic industry as well as the consumers by providing opportunities for technological upgradation, access to global managerial skills and practices, optimal utilization o human and natural resources, making Indian industry internationally competitive, opening of export market, providing backward and forward linkages and access to international quality goods and services. It is most important that FDI is central for India's integration into global production chain, which involves production by multinational corporations spread across locations ail over the world. Liberalization policies have led to rapid growth in FDI flows in recent years. Basing on the benefits associated with FDI several developing; as well developed countries complete to a high degree for FDI. Foreign capital is considered as an important element in the path of development process in India. FDIs have created tremendous opportunity for India's development and helped to boost the performance of local firms as well as the globalization of some of them. This has undeniably raised India's stature among developing countries. India needs massive investments to sustain high- quality economic growth, particularly in the energy and infrastructure sectors. Policy makers are looking at FDI on its own is not a panacea for rapid growth and development. What India needs is to put in place a comprehensive development strategy, which includes being open to trade and FDI. This should go a long way in fulfilling the ultimate goal of permanently eradicating poverty.

1. INTRODUCTION

With the liberalization of Indian economy, a large Indian market has been thrown open to foreign direct investment. FDI means to supplement domestic investment for achieving a higher level of economic growth in development. FDI benefits domestic industry as well as the consumers by providing opportunities for technological upgradation, access to global managerial skills and practices, optimal utilization o human and natural resources, making Indian industry internationally competitive, opening of export market, providing backward and forward linkages and access to international quality goods and services. It is most important that FDI is central for India's integration into global production chain, which involves production by multinational corporations spread across locations ail over the world. Liberalization policies have led to rapid growth in FDI flows in recent years. Basing on the benefits associated with FDI several developing; as well developed countries complete to a high degree for FDI. They try to attract foreign investors by providing financial and fiscal incentives, undertaking corporate restructuring and economic reforms and inviting foreign investors in the privatization of state-run units. In 2001, for example, 71 countries made 208 changes in their FDI regulatory regimes, out of which 194 have done to attract higher FDI.

FDI means cross border investment made by resident in one economy in an enterprise in another economy with the objective of establishing a lasting interest in the investee economy. FDI is also described as "Investment into the business of a country by a company in another country." According to Subba Rao, "The investment made by a company in new manufacturing and/ or marketing facilities in a foreign country is referred to as Foreign Direct Investment (FDI)." In the words of John Daniel "A Direct investment is one that gives the investor a controlling interest in a foreign country. Such a direct investment also is called a FDI. The investment made by a company in a foreign country over a given period (for example one year) is called " Flow of FDI" outflow of FDI is called "outflow of FDI" and Inflows of FDI is called "Inflow of FDI".

FDI plays a very important role in the development of an economy due to a number of reasons. Some of which are given below:

1. Helps to avoid foreign government pressure for local production.
2. Aids in circumventing trade barriers, hidden and otherwise.
3. Enables making the move from domestic export sales to a locally- based national sales office.
4. Helps in increasing the total production capacity.
5. Presents greater opportunities for co-production, joint ventures with local partners, joint marketing arrangements, licensing, etc.

2. NEED FOR FOREIGN CAPITAL IN INDIA

Foreign capital is considered as an important element in the path of development process in India.

(a) **Scarcity of resources**: In view of the scarcity of capital resources due to inadequate capital formation in the country, the foreign capital is urgently needed to support various investment projects.

(b) **The Technological Gap**: Considering the gap in technological knowledge prevailing in an underdeveloped country like India, the foreign capital is badly needed to update the traditional technology of production for attaining international competitiveness.

(c) **Initial Risk**: The underdeveloped countries are facing the lack of flow of domestic capital at the initial stage of a project due o lack of experience and expertise and high initial risk. The foreign capital undertaking the initial risk of investment can augment of flow of domestic capital to the desired direction.

(d) **Building Infrastructure**: The development programmes of the underdeveloped country depend much on building infrastructure facilities, which require huge investment. Foreign capital can provide necessary support

Table 1 : Foreign Direct Investment (Category-wise)

Item	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Foreign investment, Net (A+B)	**14,492**	**13,000**	**15,528**	**14,753**	**44,957**	**5785**	**50,362**	**42,127**	**39,231**	**46,710**	**26,386**
A. Direct investment of which:	**3137**	**3713**	**3034**	**7693**	**15,401**	**19,816**	**17,966**	**11,834**	**22,061**	**19,819**	**21,564**
(i) In India	4675	5987	8901	22,739	34,236	37,672	33,109	29,029	32,952	26,953	
Equity	2387	3714	5915	16,394	26,758	27,863	22,905	15,737	22,833	16,032	
Re-invested earnings	1800	1904	2760	5828	7168	9032	8869	13,102	8205	9880	
Other capital											
(ii) Abroad	488	369	226	517	310	776	1535	191	1914	1041	
Equity	-1538	-2274	-5867	-15046	-18835	-17,855	-15143	-17,195	-10,892	-7134	
Re-invested earnings	-282	-1637	-3766	-12604	-14,421	-13,688	-9871	-8048	-3874	-1614	
Other capital	-1176	-248	-1092	-1076	-1084	-1084	-1084	-1569	-1208	-1189	
	-80	-389	-1009	-1366	-3330	-3083	-4188	-7578	-5809	-4331	
B. Portfolio investment	11,355	9278	12,494	7060	29,556	-14.031	32,396	30,293	17,170	**26,891**	
In India	11,377	9311	12,494	7004	29,394	-14,031	32,376	31,471	17,409	27,770	**4.822**
Abroad	-22	-24	-	56	162	-177	20	-1179	-239	-878	

Source : RBI, Annual Reports from 2003- 2004 to 2013- 2014

Table 2 : Foreign Direct Investment (Country-wise)

Country	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	Total	Per cent share
Mauritius	381	820	1363	3780	9518	10,165	9801	5616	8142	8059	3695	61340	40.23
USA	297	469	346	706	950	1236	2212	1071	994	478	617	9376	6.15
Germany	69	143	45	116	486	611	602	163	368	467	650	3720	24.41
Netherlands	197	196	50	559	601	682	804	1417	1289	1700	1,157	8652	5.68
Japan	67	122	86	80	457	266	971	1256	2089	1340	1795	8529	5.59
Singapore	15	64	61	582	2827	3360	2218	1540	3306	1605	4415	20098	13.19
Korea	22	14	261	68	86	95	159	136	226	2224	111	8583	5.63
UK	157	84	-	1809	508	690	643	538	2760	1022	239	1994	1.31
UAE	-	-	12	215	226	234	373	188	346	173	229	2897	1.90
France	34	44	68	100	136	437	283	486	589	547	356	1585	1.04
Switzerland	5	64	-	57	192	135	96	133	211	268	85	1080	0.71
Hongkong	-	-	-	60	106	155	137	209	262	66	181	1561	1.02
Spain	-	-	-	62	48	363	125	183	251	348	546	6562	4.31
Cyprus	-	-	-	58	570	1211	1623	571	1568	415	539	988	0.65
Luxemburg	-	-	-	-	15	23	40	248	89	34	189	1280	0.84
Others	-	-	-	1055	2699	3034	2374	1184	983	1540	1,249	14,118	9.27
Total	1244	2020	2458	9307	19,425	22,697	22,461	14,939	23,473	18,286	16053	1,52,363	100.00

Source : RBI, Annual Reports from 2003- 2004 to 2013- 2014

towards building such infrastructure facilities in the country.

(e) **BOP Support**: In order to meet the balance of payment of crisis arising from the huge import requirements for importing capital goods, and other maintenance imports in the initial part of development process of a developing country like India, the flow of foreign capital can offer a temporary solution to the problem.

3. AN EVAULATION OF FOREIGN DIRECT INVESTMENT

(a) FDI inflows: Category-wise

Table 1 presents the category-wise direct investment inflows to India, which increased from US$ 3137 million in 2003-04 to US$ 19,819 million in 2012-13. Net portfolio investment flows to India increased from US$ 11,355 million in 2003-04 to US$ 26,891 million in 2012-13. Net foreign investment in India increased from US$ 14,492 million to US$ 46710 million over the same period.

(b) FDI inflows: Country-wise

Table 2 shows the country-wise Break-up of FDI. Mauritius emerged as the most dominant source of inflows with a contribution of US$ 57,645 million (42.29%), followed by Singapore with a contribution of US$ 15,683 million (11.51%) and USA with a contribution of US$ 8759 million (6.43%) during the period 2003-04 to 2012-13. One possible explanation for the dominance of Mauritius in FDI is that India has a Double Taxation Avoidance agreement (DTAA) with this country, under which investors from Mauritius are protected from taxation in India.

(c) FDI inflows: Sector-wise

Table 3 reveals the sector-wise break- up of FDI inflows in India from the period 2003-04 to2012-13. The majority of the inflows during the period 2003-04 to 2012-13 were in manufacture (28.32%), financial services (13.80%), construction (11.31%), business services (6.44&), electricity & other energy generation, distribution and transmission (5.96%) and computer services (5.51%). These facts can be verified from

Table 3 : Foreign Direct Investment (Sector-wise)

Sector	2003-04	2004-05	2005-06	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	Total	Percent share
Manufacture	426	3726	4777	3726	4777	5143	4793	9337	6528	6381	44,933	29.5
Construction	172	2551	2237	2551	2237	3516	1599	2634	1319	1276	16,671	10.9
Financial services	69	3850	4430	3850	4430	2206	1353	2603	2760	1026	19,815	13.01
Real estate activities	197	1336	1886	1336	1886	2191	444	340	197	201	7,469	4.91
Electricity & other energy generation, distribution & transmission	90	829	669	829	669	1877	1338	1395	1653	1284	9406	6.18
Communication services	-	66	2067	66	2067	1852	1228	1458	92	1256	8672	5.7
Business services	22	1158	643	1158	643	1554	569	1590	643	521	9290	6.1
Miscellaneous services	-	1901	1458	1901	1458	888	509	801	552	941	7348	4.8
Computer services	166	1035	1647	1035	1647	866	843	736	247	934	8440	5.5
Restaurants & Hotels	67	280	343	280	343	671	218	870	3129	361	6209	4.1
Retail & wholesale trade	5	200	294	200	294	536	391	567	551	1,139	362	2.5
Mining	18	461	105	461	105	268	592	204	69	24	1800	1.2
Transport	20	816	401	816	401	220	344	410	213	311	3036	1.9
Trading	-	176	400	176	400	198	156	60	140	0	1158	0.8
Education, research & development	-	156	243	156	243	91	56	103	150	107	955	0.6
Others	213	-	1097	-	1097	384	506	419	43	293	3198	2.1
Total	1465	18,541	22,697	18,541	22,697	22,461	14,939	23,473	18,286	16,055	1,52,262	100

Source : RBI, Annual Reports from 2003- 2004 to 2013- 2014.

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4. CONCLUSION

An analysis of the recent trends in FDI flows at the global level as well as across regions/ countries suggest that India has generally attracted higher FDI flows in line with its robust domestic economic performance and gradual liberalization of the FDI policy as part of the cautious capital account liberalization process.

FDIs have created tremendous opportunity for India's development and helped to boost the performance of local firms as well as the globalization of some of them. This has undeniably raised India's stature among developing countries. India needs massive investments to sustain high- quality economic growth, particularly in the energy and infrastructure sectors. Policy makers are looking at FDI on its own is not a panacea for rapid growth and development. What India needs is to put in place a comprehensive development strategy, which includes being open to trade and FDI. This should go a long way in fulfilling the ultimate goal of permanently eradicating poverty.

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