
Research Papers



Foreign Direct Investment Inflows in India - An Overview

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ABSTRACT

Foreign Direct Investment (FDI) refers to the acquisition by a foreign individual or organization of a certain quantity of the stocks or shares of a domestic corporation or firm, or long-term loans provided by a foreign individual or organization to a domestic corporation or firm. The Foreign Direct Investment (FDI) environment in India has undergone a sea change since the inception of economic reforms in 1991. The positive changes can be particularly attributed to the evolving policy framework. The government now acts as a 'facilitator' of private investment by creating an enabling environment. It bridges the gaps in critical infrastructure to encourage investment and acts as a 'partner' to the private sector in 'public-private partnerships' (PPP).

There has been a widely accepted view that FDI flows to India would accelerate over time given the positive medium to longer-term prospects for the economy. India displaced the United States in 2005 to gain number two position which it has held ever since. FDI inflows in 2006 reached US \$19.6 billion. In 2007, total FDI inflows in India stood at US \$ 23 billion showing a growth rate of 43.2 per cent over 2006. This is a positive sign and even the ratio of India's FDI Inflows to China's inflows has been consistently increasing since 2000 with Indian FDI rising from a few per cent of China's FDI inflow to 25 per cent in 2007. In this context, the present paper has been set up.

Introduction

Foreign Direct investment plays an important role in the economic development of a nation not only as a source of capital but also for enhancing competitiveness of the domestic economy through transfer of technology strengthening infrastructure ,raising productivity and generating new employment opportunities. The FDI has become in recent times increasingly an important source in financing the needs of developing nations but it has remained mostly concentrated in some selected nations such as China, Brazil, Hong Hong, Mexico, Singapore, Malasia, South Korea, Taiwan and Argentina. India has emerged as major recipient of FDI in South Asia creating more conducive business climate as well as improvement in the performance of the economy. It is important to state here that India has come out as an important destination for FDI especially in the area of research and development and this could be seen from the fact that a large number of MNCs and TNCs have established research development facilities in India. According to the World Bank study, FDI was found to be strongly associated with higher GDP growth in several developing nations during the period 1970-89. In fact ,FDI produces a positive effect on sustaining economic growth and relatively cheaper than the commercial market borrowings and improve the economies of scale and competitiveness of the manufacturing sector

Please cite this Article as : Dr. V. Backiyavathi , EForeign Direct Investment Inflows in India - An Overview : Indian Streams Research Journal (June ; 2012)

enhancing the productivity levels and providing linkages among the firms.

In India the FDI has increased three times from US\$ 52 billion in 1992 to US\$162 billion in 2002. However, the share of India increased to a small extent from US\$23.3 million to 4.7 million in 2002 as against China as US\$53 million during the same period. The major source s of FDI is East Asian newly industrialized companies along with Japan which ranks as the second largest investment in India. The growth pattern of inflows of FDI has changed in nature, composition and direction due to the introduction of the new industrial policy since 1991. FDI's share in the gross capital formation has grown from an average of 2 percent in the year 1995 to 3.4 percent in 2004. It is interesting to note FDI stock in GDP rose from 0.5 percent in 1995 to 6 percent in 2004 and this remarkable growth has been achieved without any special incentives given FDI in the Budget so far. In short, FDI (net) flows grew by 36 percent in 2005 and this increased flow was mainly to the electrical equipments, computer software and electronics.

The major countries investing in India are Mauritius, the US, Japan and the UK and Nether lands. The investment from these five countries accounted for nearly 66 percent of the total investment in India. India was attracting more Foreign Direct Investment during the period was negative growth rate. However in the year 2007 FDI was extremely rising as US\$ 15730 million. Through the FDI in India, sectors growth are increasing, economic growth stabilized employment opportunities increasing and new technology to be used in domestic and not doubt Indian economy is growing in the world economy. With this background, the present study makes an attempt to analyse the state wise and sector wise inflows of Foreign Direct Investment.

OBJECTIVE

- To study the inflows growth of FDI in India

METHODOLOGY

This study fully depends on the secondary data collected from various sources such as economic survey (2002-2007), Journals, Books and website related to FDI.

TRENDS AND PATTERN OF FDI IN INDIA

It is evident from the data that FDI inflow into India was increased from Rs.6912 million in 1992 to Rs.94814 million in 2005 and the FDI inflow was lowest in the mid of 1991. The FDI in flow was highest in the year 2002 i.e., 12 percent of the FDI inflows in India. IN the pre liberalization period India had to depend largely on western nations for capital inflow. But in the post liberalization era, India has witnessed a drastic change in the source of foreign funds and a number of developed nations have substantially increased their stake in India.

Table - 1: Foreign Direct Investment Inflows
in India- 2002-2007

(Amount in US \$ Million)

Year	Inflows	Growth
2002-03	3134	-1088
2003-04	2634	-500
2004-05	3755	1120
2005-06	5546	1790
2006-07	15730	10184
Total	30799	

Source: RBI Bulletin

Table - 1 shows the foreign direct investment inflows in India during the period 2002-07. It is evident from the table that FDI inflows was 3134 US \$ million in the year 2002-03 declined in the next year as 2634 US \$ million \$ after that it was raise as 3755 US\$ million and 15730 respectively.

Table - 2: Top Five Investing Countries and their Investment in India during the Period 2002-2007
(Amount in US \$ Million)

Country	Amount
Mauritius	18147
USA	5894
UK	3857
Netherlands	2638
Japan	2209
Total	16445

Source: RBI 2006 Bulletin

Table - 2 shows the top 5 investing countries, their rank and their investment in India during 2002-07. It is seen from the table that Mauritius stands first in the investment in India with 47 percent, US in second place with 15 per cent UK in the third place with 10 per cent Netherlands with 7 per cent and Japan with 6 per cent in respective places.

Table - 3: Mauritius Investments in India during the Period -2002-2007
(Amount in US\$ Million)

Year	Inflows	Growth
2002-2003	788	-1394
2003-04	567	-221
2004-05	1129	562
2005-06	2570	1441
2006-07	6363	3793
Total	11417	

Source: RBI Bulletin

The above table shows the Mauritius Investment in India during the period 2002-2003. It is observed from the table that Mauritius investment in India has been increasing except in the period 2003-2004. It is also seen that the highest percentage of Mauritius investment in India

Table - 4: USA's Investment Inflows in India during the Period 2002-07
(Amount in US \$ million)

Year	Inflows	Growth
2002-2003	319	-63
2003-04	360	41
2004-05	670	310
2005-06	502	-167
2006-07	856	354
Total	2707	

Source: RBI Bulletin

Table - 4 explains the USA's investment in India during the period of 2002-07 it is noticed from the table that the USA's investment in India has been increased except a sharp decline in the period 2005-06.

Table – 5: UK's Investment Inflows in India During 2002-07
(Amount in US \$ million)

Year	Inflows	Growth
2002-03	340	-26
2003-04	167	-173
2004-05	101	-66
2005-06	266	165
2006-07	1878	1612
Total	2752	

Source: RBI Bulletin

Table - 5 depicts UK's investment in India during the period 2002-07. It is evident from the table that there was a continuous decline in UK's investment in India from the year 2002 onwards. However a highest percentage of UK's investment inflows in India are noticed in the year 2007.

Table – 6: Netherlands Investment Inflows in India – 2002-07
(Amount in US \$ million)

Year	Inflows	Growth
2002-2003	176	-20
2003-04	489	313
2004-05	297	-222
2005-06	76	-191
2006-07	644	568
Total	1682	

Source: RBI Bulletin

Table - 6 gives Netherlands investment in India during the period 2002-07 it is found from the table that there are ups and down in Netherlands investment inflows in India. A highest percentage of Netherlands investment in India is noticed only in the year 2007.

Table – 7: Japan's Investment Inflows in India – 2002-07
(Amount in US \$ million)

Year	Inflows	Growth
2002-2003	412	234
2003-04	78	-334
2004-05	126	48
2005-06	208	82
2006-07	85	-123
Total	909	

Source: RBI Bulletin

Table - 7 shows Japan's investment inflows in India during the year 2002-07. It is observed from the table that Japan's investment inflows in India was highest in the year 2002-03 and lowest in the year 2007 and the lowest in the year 2007.

**Table – 8: Top Five Sectors Attracting FDI in India during the period 2002-07
(Amount in US \$ million)**

Details Industrial Sector	Amount
Electrical equipments	8227
Service sector	7840
Telecommunication	3892
Transportation	3644
Fuels	2831
Total	26,434

Source: RBI Bulletin

Table - 8 the above table gives the top five sector attracting FDI in India during the period 2002-07. It is seen from the table that the electrical equipment sector ranks first in among the top five sectors attracting FDI in India.

Table – 9: FDI Inflows in Electrical Equipments Sector During the period 2002-07(Amount in US \$ million)

Year	Inflows	Growth
2002-2003	644	115
2003-04	532	112
2004-05	721	189
2005-06	1451	730
2006-07	2733	1232
Total	6081	

Source: RBI Bulletin

Table - 9 explains the FDI inflows in electrical equipment sector during the period 2002-07. It is noticed from the table that FDI's inflows was continuously increased except in the year 2003-04.

Table – 10: FDI Inflows in Service Sector during the Period 2002-07 (Amount in US \$ million)

Year	Inflows	Growth	percentage
2002-2003	326	60	4.9
2003-04	269	-57	4.0
2004-05	469	200	7.2
2005-06	581	112	9.0
2006-07	4749	4168	71.8
Total	6394		100

Source: RBI Bulletin

Table - 10 shows service sector attracting the FDI in flows in India during the period 2002-2007. It seen from the table that the percentage growth of FDI inflows in India was continuously increased.

Table – 11: FDI Inflows in Telecommunication Sector during the Period 2002-07(Amount in US \$ million)

Year	Inflows	Growth
2002-2003	223	91
2003-04	116	-107
2004-05	129	13
2005-06	680	551
2006-07	521	-159
Total	1669	

Source: RBI Bulletin

Table - 11 shows the FDI inflows in telecommunication sector during the period 2002-07. It is noticed from the table that the growth of FDI inflows in the telecommunication sector goes on increasing till 2006-07.

CONCLUSION

FDI acts as the life blood in the growth of the developing nations. It is noteworthy to state here that the flow of the FDI to the nations of the world really reflects their respective potentiality in the global scenario. From this study it is seen that most of the major nations like USA, UK, Mauritius, Japan and France have top places in investment in India. FDI has an impact on a country's trade balance, increasing labour standard and skills, transfer of new technology and innovative ideas, improving infrastructural facilities and improve the international business climate. Even though India is unlikely to achieve even the truncated FDI target of US\$30 billion in 2008-09, it has already seen an expansion of the inflow of FDI in the middle of a difficult global environment. With the government planning further FDI liberalization measures across a range of sectors (such as the insurance, media and aviation sectors) and continued investor interest, FDI into India is expected to continue to accelerate.

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Please cite this Article as : Dr. V. Backiyavathi , FForeign Direct Investment Inflows in India - An Overview : Indian Streams Research Journal (June ; 2012)