

## Determinants, Trends and Growth of FDI in India and China

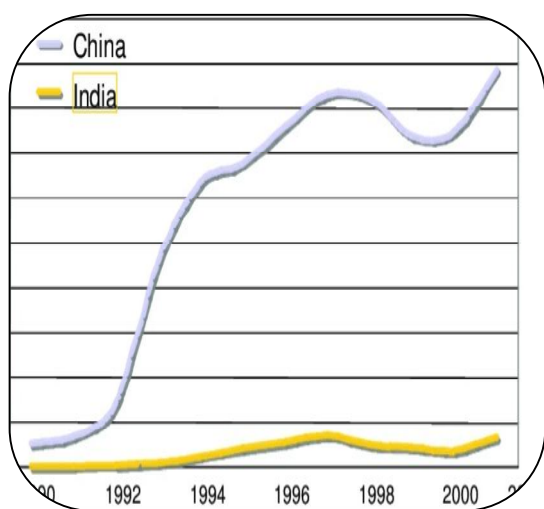


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Short profile

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### ABSTRACT

*Foreign Direct Investment (FDI) is always contributing in the positive growth toward the economy of one country due to the investment by another country. FDI or Foreign Direct Investment, is a Fund flow between the countries in the form of Inflow or outflow by which one can able to gain some benefit from their investment, whereas another can exploit the opportunity to enhance the productivity and find out better position through performance. The role of FDI in*

*growth of an economy of every country is a burning topic these days. In this article, an attempt has been made to highlight the determinants, trends and growth of FDI in India and China.*

**KEYWORDS:** *Determinants of FDI, Trends of FDI, Growth of FDI, India, China.*

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## Determinants of FDI

### 1. Exchange Rate

Relative strength of currency determines the FDI flow. The relationship between FDI inflows and Exchange rate is expected to be negative.

### 2. Inflation

Inflation is the rate at which the general prices of the good and the services rise and the purchasing power reduces. High inflation signals unstable economy and thus the relationship between inflation and FDI are expected to be negative.

### 3. Interest Rate

Foreign operations require significant commitment in capital, especially if they are undertaken in capital intensive sectors where production is characterized by extensive economies of scale, as the case is for most FDI. Thus the relationship between FDI inflow and interest rate in the home country is expected to be positive.

### 4. Market Size

Large market size means more potential for consumers and thus more opportunity for the international Trade. Thus the expected relationship between FDI and Market Size is positive.

### 5. Size and Growth of the Economy and Prospects

The general implication is that host countries with larger market size, faster economic growth and higher degree of economic development will provide more and better opportunities for the industries to exploit their ownership advantages and, therefore, will attract more FDI.

### 6. Human Quality

Well trained labour which is of relatively high quality and comparatively numerous technical personnel attract huge FDI.

### 7. Infrastructural Facilities

The availability of physical, financial and technological infrastructure affects the decision for investment. The more highways, railways and interior transport waterways are adjusted according to the size of host province, the more FDI inflows. Higher levels of telecommunications services will

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save time and reduce the costs of communication and information gathering, thus facilitating business activities.

### 8. Liberal International Trade and Access to International Markets

India and China have implemented economic reforms and open door policies and made efforts to promote trade. They have also formulated and implemented a series of preferential policies to encourage international trade, for example- duty exemptions for intermediate products used in the production of exports.

### 9. Development of Legal Framework

India and China have endeavored to introduce a more transparent legal framework. A series of laws, regulations and provisions have been amended.

### 10. Investment Incentives

The investment incentives include significant reductions in national and local income taxes, land fees, import and export duties, and priority treatment in obtaining basic infrastructure services. To encourage reinvestment of profits, China has been offering FDI a refund of 40 per cent of taxes paid on its share of income, if the profit is reinvested in China for at least five years.

### Recent Trends of FDI in India

The following tables give a clear scenario of increasing FDI inflows in India. The FDI flow was highest in 2008-09 which amounted to Rs. 41873 crores. Table 2 projects the number of approvals generated in India for FDI proposals. Table 3 provides a statement on sector wise FDI equity inflows from April 2000 to July 2013. Table 4 shows investment pattern of FDI providers. Mauritius has provided the highest FDI as pointed in table 4.

**Table No 1: Financial Year Wise FDI Inflow Data**

Year	Total FDI Flows (In Rs. Crores)	Percentage Growth
2000-01	4,029	-
2001-02	6,130	(+) 52 %
2002-03	5,035	(-) 18 %
2003-04	4,322	(-) 14 %
2004-05	6,051	(+) 40 %
2005-06	8,961	(+) 48 %
2006-07	22,826	(+) 146 %
2007-08	34,843	(+) 53 %
2008-09	41,873	(+) 20 %
2009-10	37,745	(-) 10 %
2010-11	34,847	(-) 08 %
2011-12	46,556	(+) 34 %

Source: Annual Report of DIPP, 2012

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**Table 2: Financial Year Wise Approvals**

YEAR	No. of Approvals (both Automatic and Non Automatic)
2000-01	10
2001-02	11
2002-03	9
2003-04	13
2004-05	61
2005-06	55
2006-07	99
2007-08	1
2008-09	10
2009-10	0

Source: DIPP

**Table 3: Statement on Sector-wise FDI Equity Inflows from April, 2000 To July, 2013**

S.No	Sector	2011-12 In Rs. Crores (in US \$ million)	2012-13 In Rs. Crores (in US \$ million)
1	SERVICES SECTOR	24,656 (5,216)	26,306 (4,833)
2	Construction Development	15,236 (3,141)	7,248 (1,332)
3	Telecommunications	9,012 (1,997)	1,654 (304)
4	Computer Software & Hardware	3,804 (796)	2,656 (486)
5	Drugs & Pharmaceuticals	14,605 (3,232)	6,011 (1,123)
6	Chemicals (Other than Fertilizers)	18,422 (4,041)	1,596 (292)
7	Automobile Industry	4,347 (923)	8,384 (1,537)
8	Power	7,678 (1,652)	2,923 (536)
9	Metallurgical Industries	8,348 (1,786)	7,878 (1,466)
10	Hotel & Tourism	4,754 (993)	17,777 (3,259)

Source: Fact Sheet on FDI (From April, 2000 to July, 2013) published by DIPP

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**Table 4: Investment Pattern of FDI Providers**

Ranks	Investing Country	2011-12 (In Rs. Crores)	2012-13 (In Rs. Crores)
1.	Mauritius	46,710	51,654
2.	Singapore	24,712	12,594
3.	U.K.	36,428	5,797
4.	Japan	14,089	12,243
5.	U.S.A.	5,347	3,033
6.	Netherlands	6,698	10,054
7.	Cyprus	7,722	2,658
8.	Germany	7,452	4,684
9.	France	3,110	3,487
10.	U.A.E.	1,728	987

Source: DIPP

**Table 5: Ranking of Sector Wise of FDI inflow in India (April 2000-December 2010)**

Rank	Sector	% of FDI inflow
1	Service Sector	32
2	Computer Hardware and Software	14
3	Telecommunication	12
4	Housing and Real Estate	11
5	Construction Activities	11
6	Power	6
7	Automobile Industry	6
8	Metallurgical Industry	4
9	Petroleum and Natural Gas	3
10	Chemicals	1

Source: Fact Sheet of FDI- DIPP (2010)

Table 5 depicts ranking of sector wise of FDI inflow in India since April, 2000 to December, 2010. The service sector has received 32% of FDI inflow followed by computer hardware and software(14%) and the least is in chemical sector (1%).

**Table 6: Inflow of FDI in China**

Phase (Years)	FDI inflow (US\$ million)	Annual average (US\$ million)	Annual rate of increase (%)
First Phase (1979-1983)	1 802	360	55.4
Second Phase			
1984-1991	21 546	2 693	27.2
1984-1988	10 301	2 060	38.1
1989-1991	11 245	3 748	11.0
Third Phase (1992-1999)	282 653	35 331	32.1

Source: China Statistical Yearbook

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Table 6 depicts inflow of FDI in China which has increased rapidly since early 1990s.

## CONCLUSION

To conclude, both India and China have gained momentum with the increasing participation of foreign investment. FDI has resulted in an increase in both total employment in FDI firms and has helped in their foreign trade expansion. Both the countries should frame and revise investment promotion policies for prospective as well as existing countries so that their economies could grow at accelerated pace.

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