FDI – A Growth Perspective from India

Babasaheb R. Jadhav
Asst. Professor, MAEER’S, MITCOE-CMSR, Kothrud,
Pune-411038, Maharashtra, India.

Dr. Anand G. Gaikwad
Professor and Dean, MAEER’S, MITCOE-CMSR, Kothrud,
Pune-411038, Maharashtra, India.

ABSTRACT
Foreign direct investment (FDI) policies play a major role in the economic growth of developing countries around the world. Attracting FDI inflows with conductive policies has therefore become a key battleground in the emerging markets. The prospect of new growth opportunities and outsized profits encourages large capital inflows across a range of industry and opportunity types. In the light of the above the paper highlights the trend of FDI in India after the economic reforms, State-wise, Year-wise, sector-wise and country-wise share of FDI. The net result is that while much of the FDI cannot enhance India’s ability to earn foreign exchange through exports of goods and services and thus cover the current account gap on its own strength, large inflows of portfolio capital causes currency appreciation and erodes the competitiveness of domestic players. The falling share of manufacturing and even of IT and ITES (Information Technology Enabled Services) means that there is less likelihood of FDI directly to export earnings. India seems to have been caught in a trap wherein large inflows are regularly required in order to finance the current account deficit. To keep FDI flowing in, the investment regime has to be liberalised further and M&As (mergers & Acquisitions) are allowed freely. India should strengthen its information base that will allow a proper assessment of the impact that FDI can make on its development aspirations.

Keywords- FDI, Growth rate, Composition of FDI, Direction of FDI

I. INTRODUCTION
Foreign direct investment policies play a major role in the economic growth of developing countries around the world. Attracting FDI inflows with conductive policies has therefore become a key battleground in the emerging markets. The prospect of new growth opportunities and outsized profits encourages large capital inflows across a range of industry, opportunity types & this has led to competition among the countries and states in formulating flexible policies and providing incentives to encourage private investors to invest more and more. In the light of the above the research paper highlights the trend of FDI in India after the economic reforms, sector-wise and country-wise share of FDI, the manner in which FDI has affected the growth of Indian states. Various factors which play a significant role in attracting FDI into a particular state are also examined. Efforts made by the state governments in order to attract maximum FDI are also studied.

FDI is considered as an important agent in the process of accelerated economic growth in the developing countries. FDI is more attractive in compare to other forms of external finance since it is non-debt creating, non-volatile and the returns depend on the performances of the projects financed by the investors. With the introduction of new economic policy in 1991 and subsequent reform process, India has witnessed a change in the flow and direction of FDI into the country. This is mainly due to the removal of restrictive and regulated practices. Regarding impact of FDI in the economy of developing countries economists like Griffin, Singer and Weisskof found a negative impact while, economists like Chenery and Strout found favorable effect of foreign capital inflow on the economic efficiency and growth towards the developing countries. It is evident that FDI stock in India has been
increasing and FDI policy is becoming liberal for attracting more foreign investment. FDI contributes in the process of economic development in many ways---
   a) Procurement of capital goods is feasible with trade.
   b) It is a means to achieve price stability.
   c) It generates pressures & pulls of dynamic change.
   d) Fuller utilization of capacity, economies of scale & trade.

II. RESEARCH METHODOLOGY
   A. Topic of research
      FDI: A growth perspective from India.
   B. Aim of the research
      The aim of research is to study the FDI Inflow & Growth of India.
   C. Objectives of the study
      1) To study the concepts of FDI.
      2) To analyze the Growth of India in context of FDI inflow.
      3) To study the factors contributing to the FDI inflow in India.
      4) To study the motives behind the FDI in India.
      5) To study role of FDI in Indian Retail Industry.
   D. Hypothesis
      India as an excellent investment destination for FDI
   E. Scope of Research
      The study of FDI- A growth perspective from India is analysed during the last decade (2002 to 2012).
   F. Data Collection Methods
      1. Type of Data
         Secondary data has been collected and used for the present research study.
      2. Sources of Data
         Secondary data was collected from internet, reference books, journals, articles, publications and various printed material.
      3. Tools for Data Analysis
         Line Chart, Bar Diagram, Percentages and Proportions are used for data analysis and interpretation.
   G. Limitations of study
      1. Present research paper is based on available data of FDI inflow.
      2. Time span taken for this study is last decade.

III. THEOTICAL BCKGROUND OF FDI
   • INDIA AS AN INVESTMENT DESTINATION
      FDI is seen as a means to supplement domestic investment for achieving high level of economic growth & development. FDI benefits domestic industry & consumers by providing opportunities for technological upgradation, access to global managerial skills, optimal utilization of resources, making Indian industry internationally competitive, opening up export markets, providing linkages & international quality goods & services.
      For several countries, India was one of the most popular destinations for traders and business people from all over the world. India peacefully struggled to attain its freedom and became largest democracy in the world in 1947. Now Indian economy is emerged as a globalised economy.
      Favorable Factors are:-
      • Third largest reservoir of skilled manpower in the world.
      • Large and diversified infrastructure spread across the country.
      • Abundant natural resources & self-sufficiency in agriculture.
      • Package of fiscal incentives for foreign investors.
      • Large and rapidly growing consumer markets.
Democratic government with independent judiciary.
Developed commercial banking network.
Vibrant capital market.
Easy access to nearby markets.

**DEFINITION**
As per K. Ohno, “FDI is an international financial flow with the intention of controlling and participating in the management of an enterprise in foreign country”.
"FDI occurs when an investor based in one country acquire an asset in another country with the intent to manage the assets". – Indian Finance Minister, Mr. P. Chidambaram.

**TYPES**
FDI can be of various types depending on the source, direction and its use. The various types of FDI can be classified as:

a) **Inward**-
   “Inward FDI is when foreign capital is invested in local resources”.
   These include interest loans, tax breaks, grants, subsidies and removal of restrictions and limitations.

b) **Outward**-
   Outward FDI sometimes called ‘direct investment abroad’ is when local capital is invested in foreign resources”.
   Outward FDI may also find use in import and export dealings with the foreign countries.

**ADVANTAGES**
1) Economic growth & Raising the level of investment
2) Upgradation of technology
3) Improvement in export competitiveness
4) Employment generation
5) Benefits to consumers.

**DISADVANTAGES**
1) At times it has been observed that certain foreign policies are adapted that are not appreciated by workers of the country.
2) FDI may entail high travel and communication expenses.
3) Another major disadvantage of FDI is that there is chance that a company may lose out its ownership to an overseas company.
4) Investor doesn’t have to be obedient to the economic policies.
5) Foreign investors are exploiting workers in poor countries and initiating a race to bottom, in environmental standards.
6) Foreign firms reinforce dualistic socio-economic structure, increase income inequalities & consumption pattern.
IV. DATA ANALYSIS AND INTERPRETATION

A. INDIAN SCENARIO

1. Country wise FDI Inflow

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Countries</th>
<th>FDI Inflow (Rs in Crores US Million $)</th>
<th>% FDI Inflows</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Mauritius</td>
<td>65,298.28</td>
<td>37.64</td>
</tr>
<tr>
<td>2</td>
<td>Singapore</td>
<td>17,383.10</td>
<td>10.02</td>
</tr>
<tr>
<td>3</td>
<td>UK</td>
<td>16,273.78</td>
<td>9.38</td>
</tr>
<tr>
<td>4</td>
<td>Japan</td>
<td>12,445.19</td>
<td>7.17</td>
</tr>
<tr>
<td>5</td>
<td>U.S.A</td>
<td>10,650.57</td>
<td>6.14</td>
</tr>
<tr>
<td>6</td>
<td>Netherlands</td>
<td>7,518.01</td>
<td>4.33</td>
</tr>
<tr>
<td>7</td>
<td>Cyprus</td>
<td>6,577.22</td>
<td>3.79</td>
</tr>
<tr>
<td>8</td>
<td>Germany</td>
<td>4,852.11</td>
<td>2.80</td>
</tr>
<tr>
<td>9</td>
<td>France</td>
<td>2,974.10</td>
<td>1.71</td>
</tr>
<tr>
<td>10</td>
<td>UAE</td>
<td>2,255.62</td>
<td>1.30</td>
</tr>
</tbody>
</table>

Total 146,227.98

Source: www.planningcommission.nic.in

INTERPRETATION-

The Indian scenario of FDI inflow is significantly changing. The above graphical presentation shows the Country wise FDI inflow in India. The Indian scenario under Country wise FDI inflow is analysed with the help of top ten countries, who is having a maximum investment in India. The top ten countries contribute Rs.146228 crores US million $ FDI inflow in India. Among the top ten countries contribution, Mauritius contribute around 38% in total FDI inflow that is Rs 65299 Crores US Million $ in India. The UAE is having lowest FDI inflow in India & having a 10th rank with 1.30% contribution. The reason behind the increasing FDI inflow is the FDI policy has been constantly reviewed and necessary steps have been taken to make India is most favorable destination for FDI.

II. Year wise FDI Inflows

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Years</th>
<th>FDI Inflow (Rs in Crores US Million $)</th>
<th>% Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2002-03</td>
<td>2,705</td>
<td>-</td>
</tr>
<tr>
<td>2</td>
<td>2003-04</td>
<td>2,188</td>
<td>(19%)</td>
</tr>
<tr>
<td>3</td>
<td>2004-05</td>
<td>3,219</td>
<td>47%</td>
</tr>
<tr>
<td>4</td>
<td>2005-06</td>
<td>5,540</td>
<td>72%</td>
</tr>
<tr>
<td>5</td>
<td>2006-07</td>
<td>12,492</td>
<td>125%</td>
</tr>
<tr>
<td>6</td>
<td>2007-08</td>
<td>24,575</td>
<td>97%</td>
</tr>
<tr>
<td>7</td>
<td>2008-09</td>
<td>31,396</td>
<td>28%</td>
</tr>
<tr>
<td>8</td>
<td>2009-10</td>
<td>25,834</td>
<td>(18%)</td>
</tr>
<tr>
<td>9</td>
<td>2010-11</td>
<td>19,427</td>
<td>(25%)</td>
</tr>
<tr>
<td>10</td>
<td>2011-12</td>
<td>36,504</td>
<td>47%</td>
</tr>
</tbody>
</table>

Total 1,63,880

Source: www.planningcommission.nic.in
INTERPRETATION-
The yearwise FDI inflow under the Indian scenario shows the increasing trends. The FDI inflow in the beginning year that is 2002 is Rs 2705 us million $ which is increasing up to Rs 36504 US Million $ till 2011-12. Year by year FDI inflow in India is increasing because Third largest reservoir of skilled manpower in the world, Package of fiscal incentives for foreign investors, Large and rapidly growing consumer markets, Democratic government with independent judiciary, Large & diversified infrastructure spread across the country.

III. Sector wise FDI Inflow-

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Sectors</th>
<th>FDI Inflow</th>
<th>% FDI Inflows</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Service</td>
<td>33,104.50</td>
<td>19.08</td>
</tr>
<tr>
<td>2</td>
<td>Telecommunications</td>
<td>12,558.18</td>
<td>7.24</td>
</tr>
<tr>
<td>3</td>
<td>Construction</td>
<td>11,613.34</td>
<td>6.69</td>
</tr>
<tr>
<td>4</td>
<td>Computer Wares</td>
<td>11,262.17</td>
<td>6.49</td>
</tr>
<tr>
<td>5</td>
<td>Housing &amp; Real Estate</td>
<td>11,244.98</td>
<td>6.48</td>
</tr>
<tr>
<td>6</td>
<td>Drugs &amp; Pharmaceutical</td>
<td>9,595.64</td>
<td>5.53</td>
</tr>
<tr>
<td>7</td>
<td>Chemicals</td>
<td>8,090.24</td>
<td>4.66</td>
</tr>
<tr>
<td>8</td>
<td>Power</td>
<td>7,398.70</td>
<td>4.27</td>
</tr>
<tr>
<td>9</td>
<td>Automobile</td>
<td>6,852.71</td>
<td>3.95</td>
</tr>
<tr>
<td>10</td>
<td>Metallurgical Industries</td>
<td>6,355.08</td>
<td>3.66</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>118,075.54</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: www.dipp.nic.in

INTERPRETATION-
The above graphical presentation shows the sector wise FDI inflow in India. The FDI inflow under sector wise study considers the top ten sectors of FDI investment in India. The service sectors contribute maximum FDI investment that is Rs 33105 Crores US million $. It means service sector contributes 20% FDI inflow in India. Likewise the metallurgical industries is having tenth rank in FDI investment & having 3.7% in sector wise FDI inflow with Rs 6356 Crores US million $. The FDI investment is increasing due to Size of the market Status of human resources, Status of infrastructure,
Macro-economic environment, Legal and regulatory framework, Strength of the economy, Positive climate.

B. State wise Scenario

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>RBI Regional Offices</th>
<th>08-09</th>
<th>09-10</th>
<th>10-11</th>
<th>11-12</th>
<th>12-13 (Apr-May)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Mumbai</td>
<td>57,066</td>
<td>39,409</td>
<td>27,669</td>
<td>44,664</td>
<td>5,974</td>
</tr>
<tr>
<td>2</td>
<td>New Delhi</td>
<td>7,943</td>
<td>46,197</td>
<td>12,184</td>
<td>37,403</td>
<td>3,600</td>
</tr>
<tr>
<td>3</td>
<td>Bangalore</td>
<td>9,143</td>
<td>4,852</td>
<td>6,133</td>
<td>7,235</td>
<td>1,145</td>
</tr>
<tr>
<td>4</td>
<td>Chennai</td>
<td>7,757</td>
<td>3,653</td>
<td>6,115</td>
<td>6,711</td>
<td>1,602</td>
</tr>
<tr>
<td>5</td>
<td>Ahmadabad</td>
<td>12,747</td>
<td>3,876</td>
<td>3,294</td>
<td>4,730</td>
<td>490</td>
</tr>
<tr>
<td>6</td>
<td>Hyderabad</td>
<td>5,406</td>
<td>5,710</td>
<td>5,753</td>
<td>4,039</td>
<td>703</td>
</tr>
<tr>
<td>7</td>
<td>Kolkata</td>
<td>2,089</td>
<td>531</td>
<td>426</td>
<td>1,817</td>
<td>40</td>
</tr>
<tr>
<td>8</td>
<td>Chandigarh</td>
<td>-</td>
<td>1,038</td>
<td>1,892</td>
<td>624</td>
<td>25</td>
</tr>
<tr>
<td>9</td>
<td>Kochi</td>
<td>355</td>
<td>606</td>
<td>167</td>
<td>2,274</td>
<td>104</td>
</tr>
<tr>
<td>10</td>
<td>Bhopal</td>
<td>209</td>
<td>255</td>
<td>2,093</td>
<td>569</td>
<td>30</td>
</tr>
<tr>
<td>11</td>
<td>Panaji</td>
<td>134</td>
<td>808</td>
<td>1,376</td>
<td>181</td>
<td>13</td>
</tr>
<tr>
<td>12</td>
<td>Jaipur</td>
<td>1,656</td>
<td>149</td>
<td>230</td>
<td>161</td>
<td>245</td>
</tr>
<tr>
<td>13</td>
<td>Kanpur</td>
<td>-</td>
<td>227</td>
<td>514</td>
<td>635</td>
<td>32</td>
</tr>
<tr>
<td>14</td>
<td>Bhubaneshwarr</td>
<td>42</td>
<td>702</td>
<td>68</td>
<td>125</td>
<td>2</td>
</tr>
<tr>
<td>15</td>
<td>Guwahati</td>
<td>176</td>
<td>51</td>
<td>37</td>
<td>5</td>
<td>0</td>
</tr>
<tr>
<td>16</td>
<td>Patna</td>
<td>-</td>
<td>-</td>
<td>25</td>
<td>123</td>
<td>3</td>
</tr>
<tr>
<td>17</td>
<td>Other Regions</td>
<td>18,300</td>
<td>15,056</td>
<td>20,543</td>
<td>62,652</td>
<td>2,840</td>
</tr>
<tr>
<td></td>
<td>Grand-Total</td>
<td>1,23,023</td>
<td>1,23,120</td>
<td>88,519</td>
<td>1,73,948</td>
<td>16,848</td>
</tr>
</tbody>
</table>

Note: Statement on RBI’s Regional Offices FDI Equity Inflows

INTERPRETATION-

The state wise scenario of FDI inflow is analysed with the help of RBI regional offices and states covered under RBI regions. The total RBI regional offices are 16 in India. The state wise scenario of FDI inflow state that the investment in India is increasing year by year. The state wise scenario is based on four years. In the base year that is 2008-09 the inflow was Rs 123023 Crores US Million $ and at the recent year the FDI inflow was Rs 173948 Crores US Million $. So, inflows under the states are having increasing trends. Out of the total FDI inflow under the states the Mumbai & New Delhi contributes maximum inflow that is Rs. 57066 & 7943 Crores US Million $. Through the introduction of reforms and improvement in infrastructure facilities many states in India have been successful in getting FDI’s. They are Gujarat, Maharashtra, Andhra Pradesh, Karnataka, Orissa, Madhya Pradesh, Punjab, Rajasthan and West Bengal. Still, states like Jharkhand and Bihar have not attracted enough FDI as compared with other states.

C. ROLE OF FDI IN INDIAN RETAIL INDUSTRY

Foreign investors are tremendously enthusiastic on charisma in India’s retail sector. AT Kearney’s 2005 GRDI has termed India “The most compelling opportunity for retailers”.

www.theinternationaljournal.org > RJSSM: Volume: 03, Number: 12, April 2014 Page 67
Current Scenario

- The share of organized retailing in India is around 2%, is abysmally low compared to 80% in USA, 40% in Thailand or 20% in China, thus leaving the huge market potential largely untapped.
- Retailing all the way through non-traditional channels such as Fuel Stations, Direct Selling & Home Shopping Television is on rise.
- Contemporary organized retail is petite and fragmented with cast list not being able to harvest economies of scale.
- Foreign retail chains like Marks & Spencer have already established their operations in the Indian market. Quite a lot of companies including Metro, Tesco are exploring entrance options.
- India also possesses IT skills in the area of supply chain management, database management and inventory management.

As per AT Kearney’s, Global Retail Development Index 2006
The AT Kearney’s GRDI Index 2006 which clearly shows India on top of emerging retail markets with highest potential with Rank 1.

<table>
<thead>
<tr>
<th>Country</th>
<th>Rank</th>
<th>GRDI Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>1</td>
<td>100</td>
</tr>
<tr>
<td>Russia</td>
<td>2</td>
<td>85</td>
</tr>
<tr>
<td>Vietnam</td>
<td>3</td>
<td>84</td>
</tr>
<tr>
<td>Ukraine</td>
<td>4</td>
<td>83</td>
</tr>
<tr>
<td>China</td>
<td>5</td>
<td>82</td>
</tr>
<tr>
<td>Chile</td>
<td>6</td>
<td>71</td>
</tr>
<tr>
<td>Latvia</td>
<td>7</td>
<td>69</td>
</tr>
<tr>
<td>Slovenia</td>
<td>8</td>
<td>68</td>
</tr>
<tr>
<td>Croatia</td>
<td>9</td>
<td>67</td>
</tr>
<tr>
<td>Turkey</td>
<td>10</td>
<td>66</td>
</tr>
</tbody>
</table>

Source- Euro money, World Bank Report 2005
Thus it can be said that this investment boom could change the face of Indian retail by offering quality goods at lower prices to consumers.

V. RESEARCH FINDINGS
1) FDI inflow to India has been increasing, regional distribution of the same is found to be more inequitable.
2) Bureaucratic hassles, corruption and time consuming procedures should be reduced to attract more FDI inflow.
3) The Mauritius is having highest FDI investment in India.
4) The service sectors attract maximum FDI Inflow in India.
5) Maharashtra state attracts maximum FDI in India

VI. SUGGESTIONS
1. To ensure a more equitable regional distribution government should take concerted strategy for improvement & growth.
2. The state governments have to take attractive investment policy in the line of Maharashtra and Karnataka.
3. Political willingness seems to be a major step in this direction.
4. Development of infrastructure, power & transport network is an immediate need of the time since its basic for industrialization.
5. The prospects of India as a FDI destination would be realized, if some of its constraints could be overcome.
6. Utilize all the man force because India is the largest reservoir of skilled manpower in the world.
VI. Conclusion

FDI plays an important role in economic growth of an Indian economy. The FDI inflows into an Indian economy shows that many factors influences inflows such as market size, inflation, trade openness, interest rate, wage rate, business environment, etc. The present study examined the factors determining FDI inflows in India during the last decade. The results of analysis show that FDI is related positively with the previous period FDI inflow but inversely related with inflation. India has all the variables such as fine infrastructure, potential markets, abundant labour, availability of natural resources, and at last the economic and trades policies which has been favouring FDI. India is now rated as the second-most favoured destination for FDI in the world after China, but it is expected that in future India would out beat china as it has a large proportion of young population with one of the fastest growing economies. FDI has worked as an “engine of growth” in the past and more in modern era. So it is concluded that India is an excellent investment destination for FDI in the world.

As George Bernard Shaw is reputed to have said “We are made wise not by the recollection of our past, but by the responsibility for our future”, and the future of India is bright indeed.

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