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AN ANALYSIS ON SECTORAL TREND AND PATTERN OF FDI INFLOW IN INDIA

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ABSTRACT

Foreign direct investment (FDI) is defined as a long-term investment by a foreign direct investor in an enterprise resides in host country. This FDI is the sum of equity capital, reinvestment of earnings, long term and short term capital which is distributed on sectoral basis in host country economy. In large economies such as India the FDI investment does not only mean the transfer of funds from home country to host country but It also include the participation in management, joint ventures, technology transfer and knowledge spillover etc. Moreover trend of FDI inflow assist in the economic development of India in context of employment generation and boost up the level of export of host country.There are large number of investorscontributed the FDI in India but top ten countries shared approx 80% of cumulative FDI and remaining 20% shared by rest of the world from year 2006 to 2012. However among these top ten countries only the Mauritius contributed the lion share of Investment to India. Actually this maximum FDI inflow come to the India from Mauritius route because the India passed a treaty with Mauritius in 1992 that facilitated the total exemption from capital gain tax and early incorporation of companies in Mauritius. In India the countries preferred to invest because of low cost labour, large market size,vast natural and physical resources andhuge youth oriented population .In general the FDI is entered in most of the permitted sectors but in particular the service sector remained on top priority for FDI investment in India from year 2000 to 2012.

KEYWORDS: *Mauritius Route, Service Sector, Trend of FDI.*

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Introduction

Foreign Direct Investments (FDI) does not only the net inflows of investment in an economy but also concerning to technology transfer, knowledge transfer, introduction of modern managerial techniques and new possibilities for promotion of exports. The Indian economy has been categorized in various sectors and every sectors has set of policies in context of FDI inflow. From year 2000 the maximuminvestment received in services sector approx 27% alongwith telecommunication sector achieved 11% FDI till year 2012.Actually, the service sector comprised large number of services such as banking,Insurance,Financial services on Non-financial services in order to explore maximum FDI the Department of Promotion and Policies (GoI) has prescribed alimit in terms of foreign investors participation,Whereas the Government of India restricted some of the sectors for foreign investment such as Arms and ammunition,Atomic Energy,Railway Transport, Lottery Business including Government /private lottery, online lotteries,Gambling and Betting including casinos etc.

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FDI contributesin the economic development of host country by augmenting withappreciation in growth rate,employment generation and boost up the level of export of host country.FDI is considered to be the best complement to domestic investment to bridge the gap between the investment needs of the Country and its savings.India has recorded a significant rise in the flow of FDI in every sector of the economy over the last few years because of large market size in terms of GDP and GNI, various tax incentives for Mauritius route, investment friendly economic fundamentals, availability of high quality multilingual work force and youth of the country, who are more conscious towards taste and preference and more brand loyal.

Review of Literature

Laura Alfaro (2003), His study highlighted the sectoral trend of FDI flow.He analyzedthat FDI flows intothe different sectors of the economy such as primary, manufacturing, and services illustrate thedifferent effects on economic growth. He further concluded that FDI inflows into the primary sector tend to have a negativeeffect on growth, whereas FDI inflows in the manufacturing sector a positive one and impact over service sector is ambiguous.

Kulwinder Singh (2005), He analyzedthe FDI flows during 1991-2005. Duringthis period he stressed over sectoral trend of FDI and revealed thatwhile FDI shows a gradual increase has become a staple of success in India, the progress is hollow. He further argued that thesuccess of infrastructure depend upon telecommunication and power sector. He finds that in thecomparative studies the notion of infrastructure has gone a definitional change.FDI in sectors is held upprimarily by telecommunication and power is not evenly distributed.

Sahoo, P.(2006), He conducted a panel co-integration teston the determinants of FDI in the South Asia. The study found that FDI and its determinants have long run equilibrium relationship. The major determinants of FDI in South Asia are market size, labor force growth, infrastructure index and trade openness. The results of FDI impact on growth show that FDI has a positive and significant impact on growth for four south Asian countries.

Jayashree Bose (2007), He highlighted in his book the sectoral trendof FDI inflowsin India and China.In spite of this, the book provides information on FDI in India and China, emerging issues, globalization, foreign factors, trends and issues in FDI inflows. A comparative study has alsobeen conducted on FDI outflows from India and China. This book also revealed the potential and opportunitiesin various sectors in India that would surpass FDI inflows in India as compared to China.

Rajanet. al., (2008), They argued on FDI inflow that India appears to be a suitable location in terms of FDI investment and for reaping huge benefits because ofwell developed financial sector, strong industrial base andlarge educated worker force.

Shiralashetti.A.S and S.S.Huger (2009), They made a comparison in FDI inflows during pre and post liberalisation period, country-wise, sector-wise and region-wise. They emphasized that the explosive growth in FDI inflow during post liberalisarion is due to the policy reform and large market size of India.

SapnaHooda (2011), Sheanalyzed the impact of FDI on economic development of Indian economy .Her study revealed that foreign Direct Investment (FDI) is a vital and significant factor influencing the level of growth in Indian economy. She further argued that trade GDP, Research and Development GDP, Financial position, exchange rate, Reserves GDP are the important macroeconomic determinants of FDI Inflows in India.

Chaturvedilla (2011), In this paper, He analyzed the sectoraltrend ofFDI inflows in India. This paper also explore the sector wise distribution of FDI in order to know the dominating sector which has attracted the major share of FDI in India. He also examined in his study thatthere is high degree of correlation between FDI and Economic Development.

Objectives of Study

This study is based on following objectives**:**

- To analysis the trend and pattern of FDI inflow in Indian economy.
- To examine the sectoral trend of FDI inflow in order to know the highly influential sectors in Indian economy in terms of FDI investment.
- To analyze the various sources of FDI for India in order to know the most dominant investor in India.

Research Methodology

This research is based on descriptive analysis of quantitative data.In this study,I gathered data from secondary sources such as journals, magazines, and websites particularly from the Department of Industrial Policy & Promotion, Ministry of Commerce and Industry and UNCTAD etc.Inthis study the data has been compiled from year 2000 to 2012 and to fulfill the requirement of first objective of study (To analysis the trend and pattern of FDI inflow in Indian economy) also compiled the data from year 1991 to 2012.In spite of this to make this study more researcher friendly used graphs and tables to represent the statistical data.

- **Sample Size**
  - Top Ten countries for last 6 financial years.
  - Top Ten sectors for last 6 financial years.
  - FDI trend for last 22 calendar years.
- **Sources of Data**
  - Websites of Government of India especially DIPP department.
  - National and International journals related to FDI trend.
  - Books and magazines related to FDI inflows such as FDI contemporary issues by UshaBhati.
  - Annual Reports and publications of various associations such as FICCI, UNCTAD (WIR),

Limitations of Study

- There are around 136 countries contributed the FDI investment in India. Here, organized the data from only ten countries.
- There are approx 63 sectors in Indian economy but the study is based upon only ten most influential sectors in terms of FDI.
- Variation in numerical data available on various secondary sources also identified one of the major constraints.

Descriptive Analysis

This section reveals in detail the trends of FDI inflow in India during the period 1991 to 2012. Actually, this long period has been braked into two short periods as 1991 to 2000 and 2001 to 2012. These periods will assist in explaining the more clear picture of FDI inflow in India. Further, this section divided into some sub-section with amotive to generate some fruitful results which might be helpful in the development of India. These sub-sections are:

- Trend of FDI Inflow
- Sector wise FDI inflow
- Major source of FDI inflow in India

Trend and Pattern of FDI in flow In India

Table 1

Data in US Dollar Millions

Year	FDI Inflow	FDI Growth Rate
1991	75	
1992	252	236%
1993	532	111%
1994	974	83%
1995	2151	121%
1996	2525	17%
1997	3619	43%
1998	2633	-27%
1999	2168	-18%
2000	3587.99	65%

Year	FDI Inflow	FDI Growth Rate
2001	5477.64	53%
2002	5629.67	3%
2003	4321.08	-23%
2004	5777.81	34%
2005	7621.77	32%
2006	20327.76	167%
2007	25349.89	25%
2008	47138.73	86%
2009	35657.25	-24%
2010	21125.45	-41%
2011	36190.40	71%
2012	25542.84	-29%

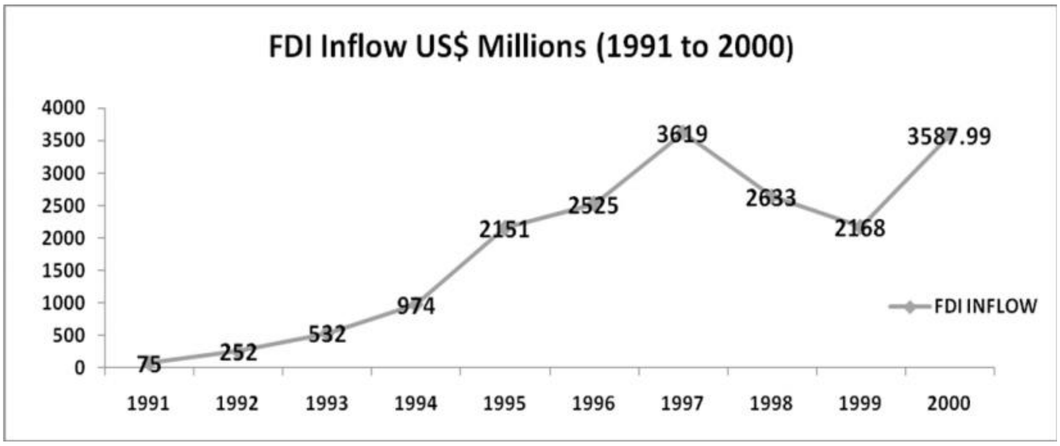
Source: Compiled from UNCTAD"WIR"YEAR 2012.

Note: Cumulative FDI Included equity component, Re-invested earning and other capital.

In the analysis of trend and pattern of FDI inflow in India, I categorized the study into two sub sections in order to explore more constructive results and with a motive that this categorization might be helpful in framing the FDI policies for India. The sub-sections are:

- FDI inflow analysis during the interval 1991 to 2000.
- FDI inflow analysis during the interval 2000 to 2012.
- **FDI inflow analysis during the interval 1991 to 2000**

Chart 1

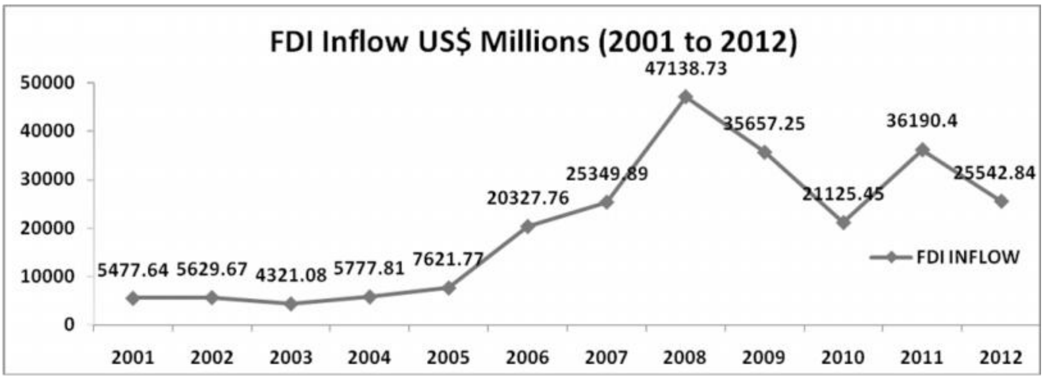


From table 1 and chart 1 we can interpret that India's opened the flood gate in year 1991 in context of liberalization in trade and investment policies of the country with a motive to economic development in the country. In addition to this, Indian government continuously reformed the investment policies and industrial policies resultantthe FDI inflow increased manifold till year 2012, which measuredUS $75 Millions in 1991, US $ 47138.73Millions in 2008to US $25542.84Millions in year 2012.

During the early post liberalization period i.e., from 1991 to 1997, FDI inflows continuously increased in India. The total amount of the FDI inflows during the period 1991 was US $75 Millions increased manifold until 1997 and reached to US$3619 million. This rapid FDI inflow was due to the entrance of large number of industries or sectors, which were opened up for foreign equity participation. During period 1998-99 the FDI graph revealed the declining trend because several factor put the restriction on FDI inflow in India such as Firstly, the adverse effect of the nuclear test carried out by India at Pokhran. The second factor was the slowdown of the Indian economy due to the mild recession in US and global economy. The third one was about unfavorable external economic factors such as the financial crisis of South-East Asia. Fourthly, the decline was due to the political instability and the poor domestic industrial environment.

- **FDI inflow analysis during the interval 2000 to 2012**

Chart 2



In Table no-2 and Chart no-2 we can interpret that during second interval (2000 to 2012) the FDI inflow revealed the explosive growth in India. In this period the government initiated the major reform in FDI policies, which motivated the foreign investors such as Mauritius route, USA, Singapore and Others Confidently invested in India through FIPB and Automatic routes for reaping the huge benefits. In year 2006, FDI increased approximately two and half times to US $20327.76 Million than previous year, which was largely contributed by Mauritius route amounted US $11096 Million and Singapore US $3073Million in various sectors. In year 2008, India received highest FDIinflow amounted to US $47138.73Million.

During the third quarter of Financial Year 2008, the US financial crisis badly affected the stock market through out the world. This sudden crisis created a turbulent situation. However, India was least affected country but the slightly impact also revealed over FDI inflow into India, which tend to reduce to US $35657.25 Millions in 2009 further US$ 21125.45 Millions in year 2010. During year 2011, FDI attempt to regain its previous position with raising the inflow to US $36190.4 Millions but in next year 2012 it again slipped to US $25542.84 Millions.

Sectoral distribution of FDI Inflow in Indian Economy

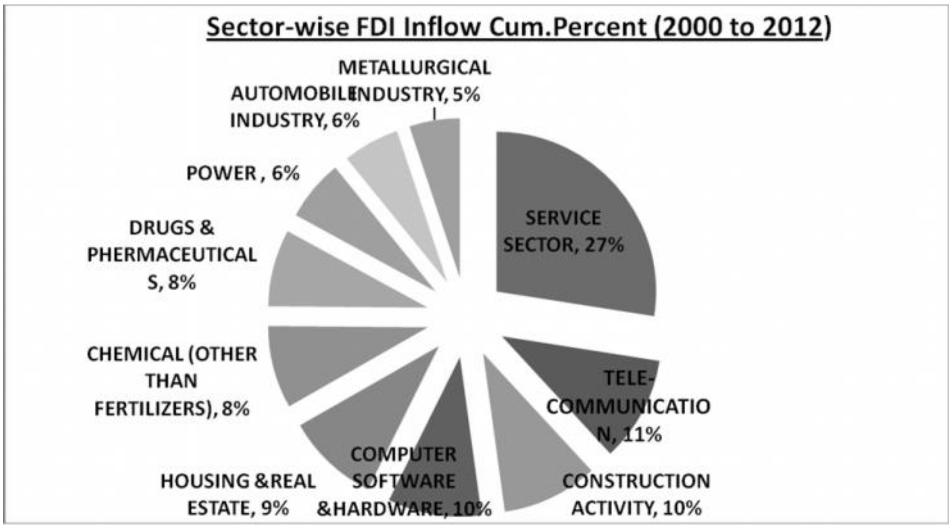
Table 3

Data in US Dollar Millions

Sectors	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Cumulative FDI (from April, 2000 to March, 2012)	Sector-wise Cumulative percentage of FDI Inflow
Service Sector (Financial &Non-Financial)	4664	6615	6116	4170	3296	5216	32351	27%
TELE-Communication (Radio Paging, Cellular Mobile, Basic Telephone Services)	478	1261	2558	2539	1665	1997	12552	11%
Construction Activity (Including Roads & Highways)	985	1743	2028	2852	1103	2796	11433	10%
Computer Software &Hardware	2614	1410	1677	872	780	796	11205	10%
Housing &Real Estate	467	2179	2801	2935	1227	731	11113	9%
Chemical (Other Than Fertilizers)	205	229	749	366	398	7252	9844	8%
Drugs & Phermaceuticals	n.a.	n.a.	n.a.	213	209	3232	9195	8%
POWER And Oil Refinery	157	967	985	1272	1272	1652	7299	6%
Automobile Industry	276	675	1152	1236	1299	923	6758	6%
Metallurgical Industry	173	1177	961	407	1098	1786	6041	5%
Total	10019	16256	19027	16862	12347	26381	117791	100%

Source: DIPP, Federal Ministry of Commerce & Industry, Government of India
Note:Cumulative sector-wise FDI equity inflows only .

Chart 3



From Table 3 and chart 3 we can interpret that India is mostpreferred destination for FDI investment because of huge population and large scope of services. In India FDI is attributed in various sectors through registered regional offices. If we analyze the sectoral trend of FDI then find that service sector has been reporting highest FDI which comprised Financial, Insurance, banking services and others services. Investors preferred to invest in service sector because of low cost wages and wide demand-supply gap in financial services in banking, insurance and telecommunication. In spite of this, India has developed as a centre for back-office processing, call centers, technical support, knowledge process outsourcing (KPOs), financial analysis and business processing hub for financial services and insurance claims. In India about 58% FDI has emerged in three sectors; Services sector (27%), Telecommunications sector (11%), Construction activities (10%), Computer software and Hardware (10%) and remaining 42% received by rest of economy during 2000 to 2012. During year 2009-10the real state sector achieved second highest FDI inflowamounted to US $2935 Millions after service sector. Although, in this sector the FDI investment reduced more than three times to US $731 Millions in year 2011-12. In addition to this the chemical sector moved on first position with highest FDI inflow US $ 7252 Millions, which was higher than investment hosted service sector during year 2011-2012 and Pharma sector achieved third rank with investment US $3232 Millions.

Major FDI investing countries in India

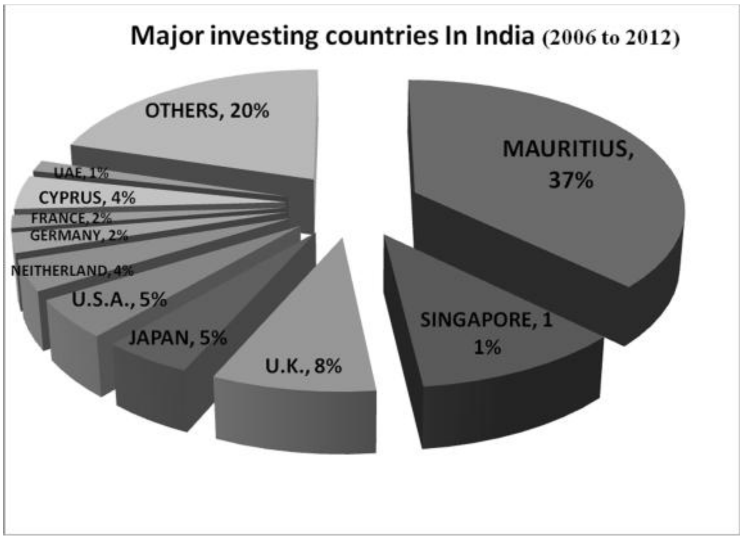
Table 4

Data in US Dollar Millions

Country	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Cumulative FDI Inflow from year 2006-07 to 2011-12	Cumulative percentage of FDI Inflow
Mauritius	6363	11096	11208	10376	6987	9942	55972	37%
Singapore	578	3073	3454	2379	1705	5257	16446	11%
U.K.	41	1176	864	657	755	9257	12750	8%
Japan	85	815	405	1183	1562	2972	7022	5%
U.S.A.	198	1089	1802	1943	1170	1115	7317	5%
Neitherland	644	695	883	899	1213	1409	5743	4%
Germany	120	514	629	626	200	1622	3711	2%
France	117	145	467	303	734	663	2429	2%
Cyprus	58	834	1287	1627	913	1587	6306	4%
Uae	260	258	257	629	341	353	2098	1%
Others	4028	4880	10140	5212	3847	2327	30434	20%
Total	12492	24575	31396	25834	19427	36504	150228	100%

Source: DIPP, Federal Ministry of Commerce & Industry, Government of India.
Note:Cumulative country-wise FDI equity inflows only .

Chart 4



From chart 4 and Table 4 we can interpret that India's 70% of cumulative FDI is contributed by six countries while remaining 30 % contributed by rest of the world. The country wise FDI inflows analysis indicates that during 2006 to 2012, India receivedFDI inflow US$150228 Millionsabout 136 countries of the world.

Mauritius emerged as the most dominant source of FDI contributing 37 % of the total investment in the countrybecause of favorable Double Taxation Avoidance Agreement. During year 1992s FIIs were allowed into India, Mauritius passed the Offshore Business Activities Act, which allowed foreign companies to register in the island nation for investing abroad. The benefits for this Act were: Total exemption from capital-gains tax, quick incorporation (a company is formed in Mauritius within two weeks), total business secrecy and a completely convertible currency.

Singapore remained on second dominant source of FDI inflows with 11% of the total inflows, whereas, UK slipped to third position by contributing 8% of the total inflows. In spite of the above countries, the other countries such as USA occupied fourth position with 5% followed by Japan with 5%, Netherlands with 4%, Cyprus with 4%, Germany with 2%, France with 2%, UAE with 1%.If we closely analyze thenduring 2008 to 2010, the share of FDI inflow reduced from Mauritius route on account of this Japan enlarged the FDI inflow during same period in India. One of the significant reason to invest in India is availability of bi-lingual labour force, youth oriented huge population and favorable economic fundamentals of the country.

Findings

- Mauritius emerged as the most dominant source of FDI contributing 37 % of the total investment in the country because of favorable Double Taxation Avoidance Agreement which facilitatedthe total exemption from capital-gains tax and quick incorporationof company in Mauritius.
- Singapore and USA occupied II and III position in India in terms of FDI inflow because these countries contributed the large amount of FDI inflow in various sectors of Indian economy for year 2006.
- South-East Asia crisis during 1998 -99 and US financial crisis in 2008 both adversely affected the FDI inflow in India during the study period.
- Service sector alongwith telecommunication sector accounted approx38% FDI in Indian economy.
- Service sector is mostly preferred for investment in India because of low cost wages and wide demand-supply gap in financial services in banking, insurance and telecommunication. In addition to this, India emerged as a center of back-office processing, call centers, technical support, and knowledge process outsourcing (KPOs).

Conclusion

There is a global race for attracting FDI in all developed and developing countries of the world. Although, the developing countries need to modify the level of educational, technological and infrastructural background to promote the FDI, however, India has observed a remarkable growth in the flow of FDI over the last one decade may be because of large market size in terms of GDP and GNI, tax incentives and availability of high quality multilingual work force.One of the significant reason to invest in India is the youth of this country who are brand loyal and more conscious about taste and preference. In India some of the sectors such as Service sector, Telecommunication sectors are most preferred in terms of Foreign investment and Mauritius and Singapore are such countries which revealed full confidence in India concerning to FDI inflow. However, India receives comparatively much lesser FDI than China and other smaller economies in Asia. To achieve the highest foreign investment India need to develop such an attractive investment avenues and need to frame liberal economic policies and required to develop the level of Infrastructure in India.

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