



FOREIGN DIRECT INVESTMENT IN INDIA – A ROAD TO DEVELOPMENT

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Abstract

Modern economies are striving a lot to attain rapid economic growth. But it is not an easy task in the short run. It requires more investment for utilization of available resources and to increase the size and magnitude of the macroeconomic variables such as income, savings and employment and so on. Modern developing economies are having a serious shortage in investment due to less income and savings. As a result, saving and investment gap arises and further investment will not take place moreover vicious circle of poverty perpetuates in those economies. In order to overcome these gaps, external capital inflow is needed in terms of FDI. A foreign Investment inflow fills these gaps and generates an additional income and investments. Many economists through their theories laid down a foundation and have shown the importance of FDI to attain the economic development. FDI has been occupied as a major non-debt capital inflow to the developing economies to boost up the income generating factors. Bringing FDI from other economies has become a major policy initiative of the modern government. Many sectors have been opened for the FDI inflow and raised the investment margin cap of investment through FDI policies. Hence, the present study is an attempt to assess the sector-wise FDI inflows, state-wise FDI equity inflows and their annual growth rates in India.

Key Words: Foreign Direct Investment, Trend in FDI, Policy Initiative.

Introduction

Foreign Direct Investment has been considered as an important investment source for the development of the modern economies all over the world. All the modern government is using deficit financing and deficit budget for the implementation of the various macroeconomic policies. A rapid development is required huge financial flows equally for all the sectors. But it is not possible due to lack of investment amount. All the developing economies are facing financial problems in terms of investment due to fundamental disequilibria in all the markets. There is a fundamental problem like less income, less savings and less investments. In order to increase savings for further investments income has to be increased in the economy. But this process is a long-term phenomenon and it will become very difficult assignment for the modern economies in the short run. Hence there is a gap between saving and investment. In order to fill this gap FDI is one of the non-debt capital inflows to the country and need not to pay any interest payments for the investment made by foreign sources. It has multiple advantages and therefore all the modern governments are extending and strengthening their Foreign Policies to bring more FDI. Indian government also not exempted from this, and through its recent FDI policies, and Foreign Policies it is going to strengthening multilateral tie-ups with other countries.

Objectives

1. To study the trend in FDI equity inflows in top ten countries.
2. To analyze the trend in top ten sectors attracting highest FDI equity inflows in India

Share of Top Investing Countries FDI Equity Inflows

Modern economies are using FDI Policies as an essential strategy for bringing more foreign investment in order to achieve parallel development of different sectors of the economy. The great ambition behind bringing FDI from the rest of the world is to make the economy sustainable in the long run. The present trends such as jobless growth, voiceless growth, rootless growth ruthless growth and futureless growth have to be eradicated and the fruits of development and growth of the economy should reach last section of the society. The present study is an attempt to study the role of FDI in terms of top investing countries, sectors attracting highest FDI equity, financial year-wise FDI inflows in India.

Table-1: Share of Top Investing Countries FDI Equity inflows (Financial years)

Ranks	Country	2011-12 (April-March)	2012-13 (April-March)	2013-14 (April-January)	Cumulative Inflows (April- January)	percentage to total Inflows (in terms of US \$)
1	Mauritius	46,710 (9,942)	51,654 (9,497)	24,762 (4,113)	365,887 (77,779)	37 percent
2	Singapore	24,712 (5,257)	12,594 (2,308)	21,521 (3,678)	111,703 (23,139)	11 percent
3	U.K	36,428 (7,874)	5,797 (1,080)	20,249 (3,187)	100,708 (20,735)	10 percent
4	Japan	14,089 (2,972)	12,243 (2,237)	6,173 (1,009)	76,268 (15,559)	7 percent
5	U.S.A	5,347 (1,115)	3,033 (557)	4,280 (721)	55,203	6 percent



					(11,842)	
6	Netherlands	6,698 (1,409)	10,054 (1,856)	10,376 (1,700)	52,754 (10,665)	5 percent
7	Cyprus	7,722 (1,587)	2,658 (490)	2,835 (464)	35,163 (7,353)	3 percent
8	Germany	7,452 (1,622)	4,684 (860)	4,920 (849)	30,432 (3,861)	3 percent
9	France	3,110 (663)	3,487 (646)	1,737 (288)	18,606 (3,861)	2 percent
10	U.A.E	1,728 (353)	987 (180)	1,406 (230)	12,713 (2,652)	1 percent
Total FDI inflows from all countries		165,146 (35,121)	121,907 (22,423)	113,401 (18,749)	1,010,314 (212,152)	

Source: RBI Bulletin 2014

The table-1 shows the top ten investing countries FDI equity inflows during 2011-12 to 2013-14. The country Mauritius ranked first in investing and in total investments it shares was 37 percent. Gradually Singapore ranked second place (11 percent) UK 3rd place (10 percent) and 4th place Japan (7 percent) and 5th place USA (6 percent). Eventually there was very less FDI inflows into India from UAE and its percentage in total inflows was only one percent. Netherlands, Cyprus, Germany & France are well developed and financially very sound countries and there was very less inflows of FDI, into India and here, the government has to take measures to increase their percentage shares in the total inflows of investments.

Table-2: Descriptive statistics.
FDI Equity Inflows (Rs. Crores) in 10 major countries

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
2011-12	10	15399.6000	15448.13053	4885.12781	4348.6731	26450.5269	1728.00	46710.00
2012-13	10	10719.1000	14957.97790	4730.12793	18.8072	21419.3928	987.00	51654.00
2013-14	10	9825.9000	8957.75463	2832.69074	3417.9084	16233.8916	1406.00	24762.00
Total	30	11981.5333	13212.95289	2412.34412	7047.7356	16915.3310	987.00	51654.00

Table-3: Test of Homogeneity of Variances.
FDI Equity Inflows (Rs. Crores)

Levene Statistic	df1	df2	Sig.
.826	2	27	.448

In table-3 the Levene test for homogeneity of variance is not significant because the level significance is 0.448 (p=0.448) which is greater than 0.05 (p>0.05). This shows that assumption of ANOVA has not been violated. As such we can proceed ahead to see the ANOVA result.

Table-4: ANOVA result.
FDI Equity Inflows (Rs. Crores) in 10 major countries

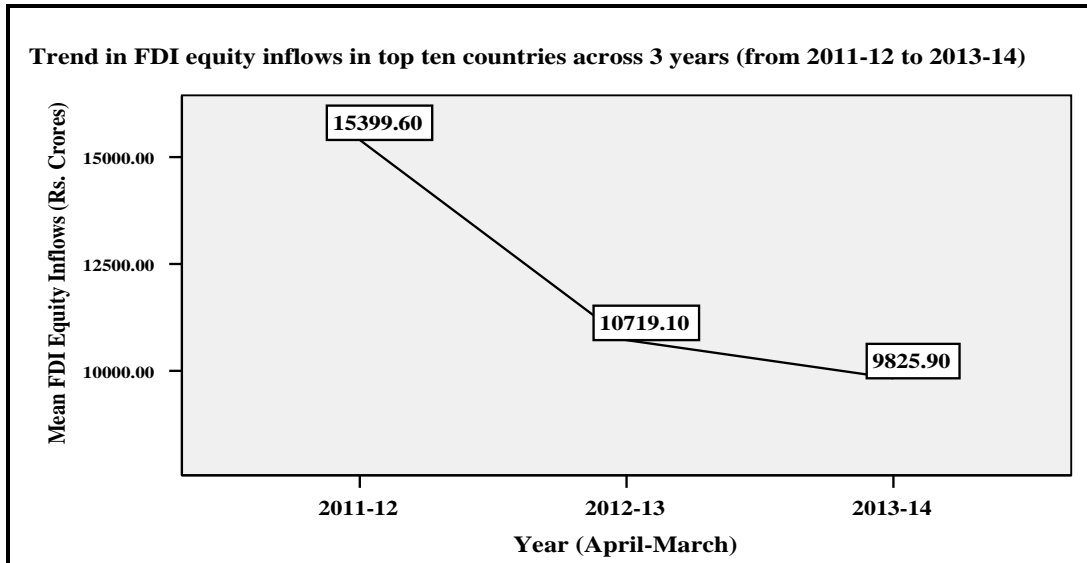
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups (Combined)	179236727.267	2	89618363.633	.495	.615
Linear Term	155330658.450	1	155330658.450	.859	.362
Deviation	23906068.817	1	23906068.817	.132	.719
Within Groups	4883644870.200	27	180875735.930		
Total	5062881597.467	29			

The ANOVA table-4 shows that, whether there is a statistically significant difference between the top ten countries in FDI equity inflows. We can see that, the significance level is 0.615 (p=0.615) which is above 0.05, and therefore, there is a statistically not significant difference in the FDI equity inflows in three years in major top ten countries. Moreover, the



Linear term in the table shows that, the significance level is 0.362 ($p=0.362$), which is above 0.05. This means that, the FDI equity inflows decreases constantly across three years and it can be shown in the graph-1.

Graph-1: Trend in FDI equity inflows in top ten countries in three years from 2011-12 to 2013-14



Equity Inflows

India is a large developing country it is recognized in the world economy. It is striving a lot, to attain balanced sustainable development of its various sectors.

Table-5: Sector Attracting Highest FDI Equity inflows (Financial years)

Ranks	Sector	2011-12 (April – March)	2012-13 (April- March)	2013-14 (April, 13 – January, 2014)	Cumulative Inflows (April'00 – January'14)	percent age to total inflows (In terms of US \$)
1	Services Sector	24,656 (5,216)	26,306 (4,833)	10,680 (1,804)	182,955 (39,039)	18 percent
2	Construction Development: Townships, Housing, Built-up Infrastructure)	15,236 (3,141)	7,248 (1,332)	5,914 (966)	106,963 (23,047)	11 percent
3	Tele Communications (Radio paging, cellular mobile, basic telephone services)	9,012 (1,997)	1,654 (304)	1,063 (172)	59,796 (13,028)	6 percent
4	Computer Software & Hardware	3,804 (796)	2,656 (486)	6,230 (1,020)	59,796 (13,028)	6 percent
5	Drugs & Pharmaceuticals	14,605 (3,232)	6,011 (1,123)	7,128 (1,269)	56,008 (12,711)	5 percent
6	Chemicals (Other than fertilizers)	18,422 (4,041)	1,596 (292)	2,950 (496)	43,446 (9,376)	4 percent
7	Automobile Industry	4,347 (923)	8,384 (1,537)	6,144 (1,050)	45,314 (9,344)	4 percent
8	Power	7,678 (1,652)	2,923 (536)	4,281 (704)	40,418 (8,538)	4 percent
9	Metallurgical Industries	8,348 (1,786)	7,878 (1,466)	2,599 (432)	37,413 (7,939)	4 percent
10	Hotel & Tourism	4,754 (993)	17,777 (3,259)	2,306 (382)	35,566 (7,013)	3 percent

Source: RBI Bulletin 2014



Table-5 provides a detailed picture about the sector attracting highest FDI equity inflows. The table-5 is clearly indicating the major 10 sectors attracting FDI equity inflows. It is important to note that; services sector has been attracting highest FDI equity as compared to the other sector. In India service sector has been emerged as a pioneer in terms of investment, generating employment, income and savings. It is also not lagging behind in attracting FDI equity from other countries from the period 2011-12 to 2013-14 the service sector had been received 18 percent of FDI inflow in term of US \$ and it is the 1st place. During 2012-13 there was 6.6 percent increment in the FDI equity inflow in the service sector compared to 2011-12. During 2013-14 there was a negative growth rate in FDI equity that is -0.5 percent. It means that, 0.5 percent of FDI equity inflows have been reduced during this year. The 2nd place has been occupied by construction development, Township, Housing, Built-up infrastructure industry.

Table-6: Descriptive statistics
FDI Equity Inflows (Rs. Crores) in 10 major Sectors in India

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
2011-12	10	11086.2000	6908.25681	2184.58262	6144.3308	16028.0692	3804.00	24656.00
2012-13	10	8243.3000	7961.07599	2517.51328	2548.2893	13938.3107	1596.00	26306.00
2013-14	10	4929.5000	2860.45801	904.55625	2883.2516	6975.7484	1063.00	10680.00
Total	30	8086.3333	6600.57213	1205.09408	5621.6392	10551.0275	1063.00	26306.00

Table-7: Test of Homogeneity of Variances
FDI Equity Inflows (Rs. Crores) in 10 major Sectors in India

Levene Statistic	df1	df2	Sig.
2.603	2	27	.093

The Levene test for homogeneity of variance is not significant because the level significance is 0.093 ($p=0.093$) which is greater than 0.05 ($p>0.05$). This shows that assumption of ANOVA has not been violated. As such we can proceed ahead to see the ANOVA result.

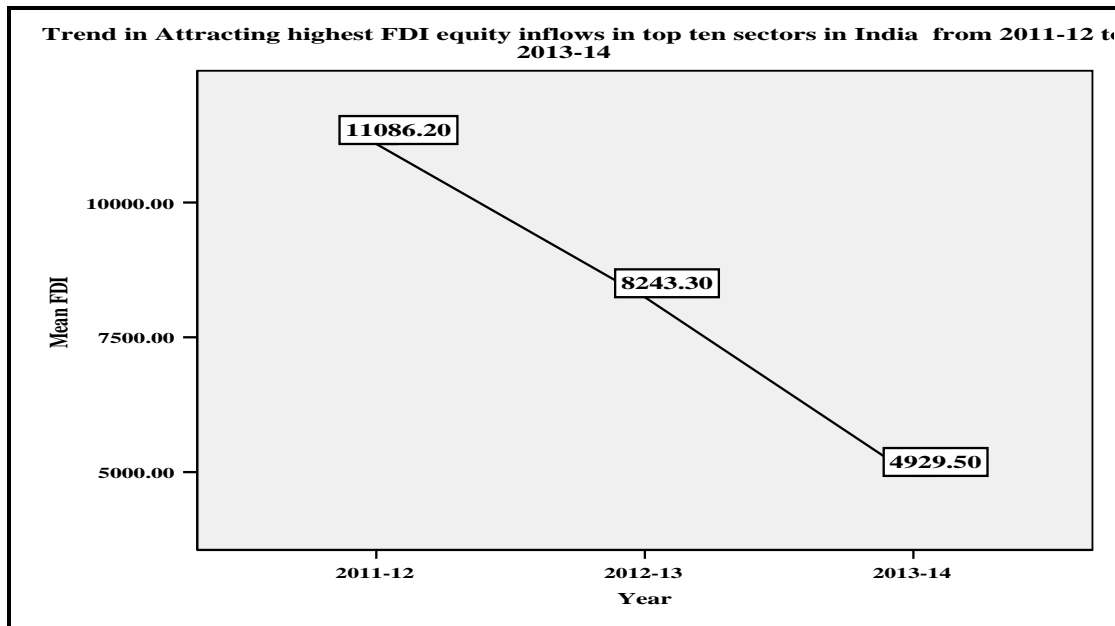
Table-8: ANOVA result
FDI Equity Inflows (Rs. Crores) in 10 major Sectors in India

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups (Combined)	189894352.467	2	94947176.233	2.388	.111
Linear Term	189524774.450	1	189524774.450	4.767	.038
Contrast Deviation	369578.017	1	369578.017	.009	.924
Within Groups	1073564668.200	27	39761654.378		
Total	1263459020.667	29			

The ANOVA table shows that, whether there is a statistically significant difference between the top ten sectors in attracting highest FDI equity inflows in three years in India. We can see that, the significance level is 0.111 ($p=0.111$) which is above 0.05, and therefore, there is a statistically not significant difference in the FDI equity inflows in three years in top ten sectors in attracting highest FDI equity inflows in India. Moreover, the Linear term in the table shows that, the significance level is 0.038 ($p=0.038$), which is above 0.05. This means that, the FDI equity inflows decreases constantly across three years in attracting highest FDI equity inflows in India and it can be seen in the below graph-2.



Graph-2: Trend in FDI equity inflows in top ten sectors in three years from 2011-12 to 2013-14



Conclusion

The paper has been analyzed the trend in FDI equity inflow in top investing countries. In order to analyse the trend in FDI equity inflows in three years from 2011-12 to 2013-14 the advanced statistical tool ANOVA has been used with SPSS. There was a constant declining trend in the FDI equity inflow in top investing countries across three years. With the help of the same tool the trend in FDI equity inflow among top ten sectors has been assessed and came to the conclusion that, there was also a constant declining trend across three years.

References

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