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## FOREIGN DIRECT INVESTMENT IN INDIA

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### SANITHA AC

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**Abstract:** Under FDI, capital moves from one country to another not in the form of loans but in the form of business investment. When capital is transferred in the form of loans, the creditor runs the risk of a partial or full default by the borrower. However, given this risk, the lender's future income is certain or pre-determined. In contrast, in FDI, the investor faces market risks and uncertainties. Return on FDI depends, amongst others, upon the success of the enterprise in which investment has been made. Consequently, it can be nil or even negative. Here the researcher focuses on the FDI in India, and more concentrated on country wise inflow of FDI in India, sector-wise FDI inflows received in India, FDI inflows in India through RBI regional offices etc. Study found that, Automobiles, Drugs and construction sectors are attracting high percentage of FDI equity inflows in India.

**Key words:** FDI -Sectors attracting FDI inflows-Country wise FDI inflows in India.

**Introduction:** The world has witnessed a rapid increase in FDI. It is regarded as an inevitable consequence of growing capital-surplus with some countries. It provides an investment avenue to capital-surplus economies and it deeply affects the economic and social fabrics of the host countries. FDI is no longer confined only to investors from developed countries. On account of a host of factors which influence FDI, even developing countries like India have started investing abroad, not only in less developed countries but also in middle-income ones.

FDI is generally defined as a form of long-term international capital movement, made for the purpose of productive activity and accompanied by the intention of managerial control or participation in the management of a foreign firm. It is different from indirect portfolio or securities long-term investment where the investor is concerned only with the yields on securities or other claims acquired (Komiya 1990). In general, FDI includes all flows, whether direct or through affiliates from the investor, and include invested earnings and net borrowings as well as equity capital (Helleiner, 1989). The world economy of today is characterized by financial integration between internationally dispersed economic activities across national boundaries. FDI is a sensitive subject in India.

**Statement Of The Problem:** FDI is undertaken not by individuals or governments, but by multinational corporations. These investors are motivated by business objectives, and this necessitates that the FDI policy of a host country should aim at deriving maximum possible benefit out of FDI inflows. If further implies that FDI policy of a country should be in conformity with its own circumstances, needs and political philosophy. Consequently, no two countries are likely to have an identical FDI policy. FDI has its own merits and demerits. FDI is helpful to a country to its economic growth, employment opportunities, growth of GNP etc. So the researcher focuses on the FDI inflows in India in this study.

**Objectives Of The Study:**

In this study, the researcher focused more on the following points:-

1. Sectors attracting highest FDI Equity inflows in India (from 2012 April to 2014 August)
2. Top 10 countries comes under FDI inflows in India (From 20102 April to 2014 August)
3. RBI's regional office wise FDI Equity inflows in India (From 2012 April to 2014 August)

### Data Analysis And Discussion

Table 1 Sectors attracting Highest FDI Equity Inflows in India

(From 2005-2006 to 2014-2015- all years started and ended April to March Except the last year, it is from April to August)

Sectors	Years (Amount in rupees Crores)										Total (Sector Wise from 2005-2014)
	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15	
Service Sector (Financial and Non-Financial)	2399 (1.30)	21047(1.42)	26589 (14.47)	28516 (15.47)	1994 5 (10.82)	15054 (8.17)	24656 (13.38)	26306 (14.27)	13294 (7.21)	6521 (3.58)	184327
Construction Development: Township, Housing, Bullet Up Infrastructure	-	-	-	-	-	7590 (18.86)	15236 (37.86)	7248 (18.01)	7508 (18.65)	2666 (6.62)	40248
Telecommunications (Radio paging, Cellular Mobile, Basic Telephone Services)	2776 (3.74)	2155 (2.91)	5103 (6.88)	11727 (15.82)	1227 0 (16.55)	7542 (10.17)	9012 (12.16)	1654 (2.23)	7987 (10.77)	13902 (18.75)	74128 (100)
Computer Software & Hardware	6172 (11.39)	11786 (21.75)	5623 (10.38)	7329 (13.53)	4127 (7.62)	3551 (6.55)	3804 (7.02)	2656 (4.90)	6896 (12.73)	2244 (4.14)	54188 (100)
Drugs and Pharmaceutica ls	-	-	-	-	1006 (2.86)	961 (2.73)	14605 (41.55)	6011 (17.10)	7191 (20.50)	5373 (15.29)	35147 (100)
Automobile Industry	630 (1.40)	1254 (2.78)	2697 (6.00)	5212 (11.54)	5893 (13.05)	5864 (13.00)	4347 (9.63)	8384 (18.57)	9027 (20.00)	1848 (4.09)	45156 (100)
Chemicals (Other than Fertilizers)	1731 (3.70)	930 (2.00)	920 (2.00)	3427 (7.37)	1726 (3.71)	10612 (22.81)	18422 (39.60)	1596 (3.43)	4738 (10.58)	2418 (5.20)	46520 (100)
Power	386 (0.95)	713 (1.76)	3875 (9.54)	4382 (10.79)	6138 (15.11)	5796 (14.27)	7678 (18.90)	2923 (7.20)	6519 (16.05)	2210 (5.44)	40620 (100)
Metallurgical Industries	6540 (12.80)	7866 (15.39)	4686 (9.17)	4157 (8.14)	1999 (3.91)	5023 (9.83)	8348 (16.34)	7878 (15.42)	3436 (6.72)	1162 (2.27)	51095 (100)
Hotel and Tourism	64 (0.17)	401 (1.05)	5729 (14.98)	1931 (5.05)	1297 (3.39)	1405 (3.67)	4754 (12.43)	17777 (46.48)	2949 (7.71)	1937 (5.06)	38244 (100)

Source: Source: <http://www.indiastat.com>, [http://www.dipp.nic.in/FDI\\_Statistics](http://www.dipp.nic.in/FDI_Statistics)

(Table F from the FACT sheet on FDI prepared under Dept. of Industrial Policy & Promotion-Govt.

of India, Ministry of Commerce & Industry)

**Research Methodology:** Study is analytical in nature. Mainly secondary data are used for this study. Conceptual part is mainly from books and journals and the reports of Department of Industrial Policy and Promotion-Ministry of Commerce and Industry, Government. of India.. Statistical data is from the website of India stat and Department of Industrial Policy & The above table represents the sector wise equity flows under FDI in India for a period of 10 years from 2005-2014. In each year, the top position of sectors in attracting FDI is changing. In the last year Auto Mobiles, Drugs and

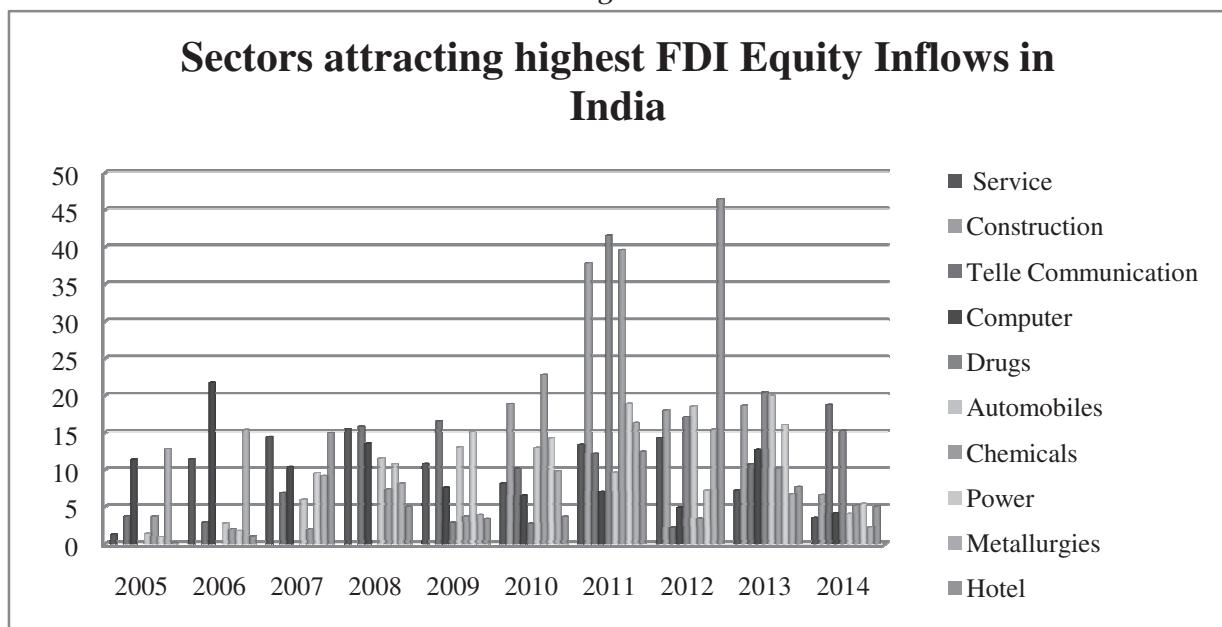
Promotion. Statistical tool of Percentage analysis is used.

#### Limitations Of The Study:

1. FDI is a wide concept, only limited part was included in this study
2. It has the limitation of the secondary data
3. Only limited period data were included in the study.

Construction achieved in the first 3 position. In common, Automobiles, Drugs and construction sectors are attracting high percentage of FDI equity inflows in India.

Diagram 1



Source: the data for the above are diagram from <http://www.indiastat.com>,  
[http://www.dipp.nic.in/FDI\\_Statistics](http://www.dipp.nic.in/FDI_Statistics)

Description: In the year 2005-Metallurgies, Computer and Telecommunication achieved the top 3 position, in 2006-Service, Computer and Metallurgies , in 2007-Service, Hotel and Computer, in 2008-Telecommunication, Service and Computer, in 2009-Telecommunicaiton,

power and Automobiles, in 2010-Chemicals, Construction and Power, in 2011-Grugs, Chemicals and Construction, in 2012-Hotels, Automobiles and Construction, in 2013-Drugs, Automobiles and Construction and in 2014-Telecommunication, Drugs and Construction.

Table 2 Foreign Direct Investment (FDI) Inflows (Equity Capital Only) in India (August 1991-March 2000 to 2013-2014 upto August 2013) (In US\$ Million)	
Financial Year (April-March)	Amount of FDI Inflows
1991-00 (August 1991-March 00)	16698
2000-01	2463
2001-02	4065
2002-03	2705
2003-04	2188
2004-05	3219
2005-06	5540
2006-07	12492
2007-08	24575
2008-09*	31396
2009-10#	25834
2010-11#	21383
2011-12#^	35121
2012-13#	22423
2013-14-Upto August 2013	8462
<b>Cumulative Total (From April 2000 to August 2013)</b>	<b>201865</b>

<http://www.indiastat.com>

Table 3 Share of Top Investing Countries comes under FDI Equity Inflows in India						
Rank	Country	Years (Amount in Crores)				
		2012-2013 (April-March)	% on Total	2013-2014 (April-March)	% on Total	2014-2015 (April-August)
1	Mauritius	51654	42.37	29360	19.90	23542
2	Singapore	12594	10.33	35625	24.15	11332
3	U.K	5797	4.76	20426	13.85	4930
4	Jaipur	12243	10.04	10550	7.15	5377
5	Netherlands	10054	8.25	13920	9.44	9379
6	U.S.A	3033	2.49	4807	3.26	2367
7	Cyprus	2658	2.18	3401	2.31	1693
8	Germany	4684	3.84	6093	4.13	2262
9	France	3487	2.86	1842	1.25	1158
10	Switzerland	987	0.81	2084	1.41	687
Total FDI inflows from all countries		121907		147518		71976

Source: [http://www.dipp.nic.in/FDI\\_Statistics](http://www.dipp.nic.in/FDI_Statistics)

Note: (i) Including amount remitted through RBIs-NRI Schemes (2000-2002).

(ii) FEDAI (Foreign Exchange Dealers Association of India) conversion rate from rupees to US dollar applied, on the basis of monthly average rate provided by RBI (DEPR), Mumbai. #: Figures for the years 2009-10, 2010-11, 2011-12 & 2012-13 (from April, 2012 to August, 2012) are provisional subject to reconciliation with RBI.

<sup>^</sup>: Inflows for the month of March, 2012 are as reported by RBI,

consequent to the adjustment made in the figures of March, 11, August, 11 and October, 11.

\* : An additional amount of US\$ 4,035 million pertaining to the year 2008-09, since reported by RBI, has been included in FDI data base from Feb. 2012.

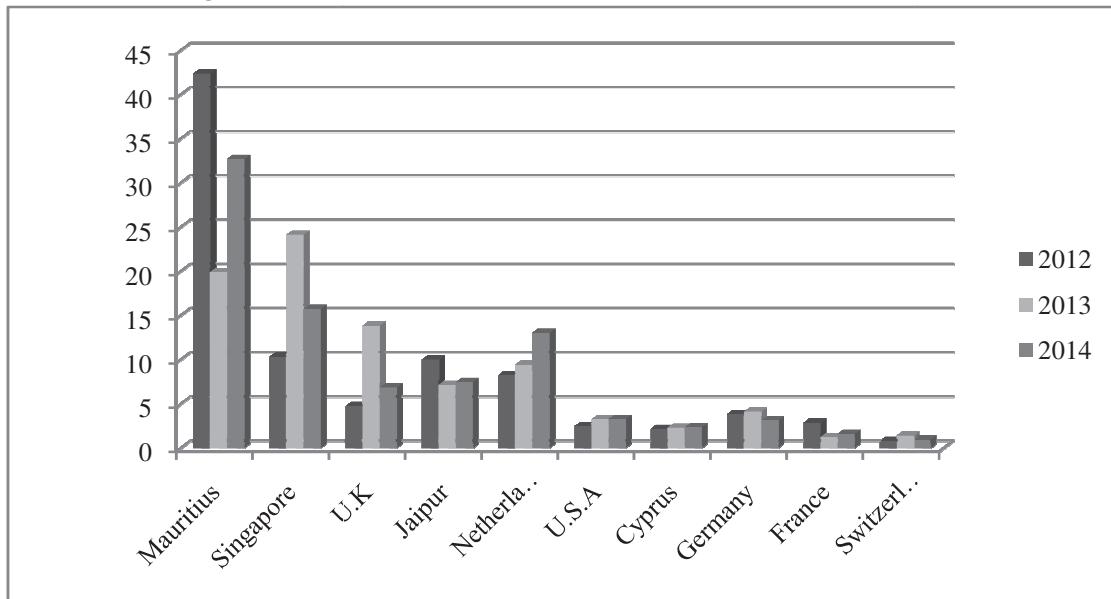
Source: <http://www.indiastat.com>

The above table 3 represents the total amount of FDI equity capital inflows from 1990-91 to 2013-2014, and it showed a decreasing trend from 1990-91 to 2005-06 and again it was decreasing from 2009-10 onwards. In 2011-12 it showed an increasing trend. But after, it shows a decreasing trend.

(Table E from the FACT sheet on FDI prepared under Dept. of Industrial Policy & Promotion-Govt. of India, Ministry of Commerce & Industry)

The above table described the ranking of 10 top Countries which included in the FDI equity inflows in India for a period of 3 years from 2012-2013 to 2014-2015. As per the 3 years data, Mauritius and Singapore is the best among the 10 Countries which comes under FDI Equity Inflows in India.

Diagram 2 ,10 Top Countries and Year Wise FDI inflows in India



Source: data for the above diagram are from [http://www.dipp.nic.in/FDI\\_Statistics](http://www.dipp.nic.in/FDI_Statistics)

Description: the above diagram explained the 10 top countries in India's FDI equity Inflows and their position for a period of 3 years from 2012 to 2014. In the year 2012-out of 10 top most countries, Mauritius, Singapore and Jaipur

achieved the first 3<sup>rd</sup> position. In the year 2013-Singapore, Mauritius and U.K achieved the first 3<sup>rd</sup> position and in the year 2014- Mauritius, Singapore and Netherland achieved the first 3<sup>rd</sup> position.

Table 4 Statement on RBI's Regional Offices (With State Covered) Regional FDI Equity Inflows in India

Sl. No.	RBI Regional Offices	State Covered	Years (Amount Rupees in Crores)		
			2012-2013 (April-March)	2013- 2014(April- March)	2014-2015 (April-August)
1	Mumbai	Maharashtra. Dagra&MagarHaweli, Daman & Diu	47359	20595	15390
2	New Delhi	Delhi, Part of UP and Haryana.	17490	38190	10266
3	Chennai	Tamil Nadu, Pondichery	15252	12596	6102
4	Bengaluru	Karnataka	5553	11422	2607
5	Ahmedabad	Gujarat	2676	5282	1665
6	Hyderabad	Andhra Pradesh	6290	4024	4570
7	Kolkata	West Bengal, Sikkim, Andaman & Nicobar Islands	2319	2659	460
8	Chandigarh	Chandigarh, Punjab, Haryana, Himachal Pradesh	255	562	200
9	Jaipur	Rajasthan	714	233	3138
10	Bhopal	Madhya Pradesh, Chattisgarh	1208	708	600
11	Kochi	Kerala, Lakshadweep	390	411	240
12	Panaji	Goa	47	103	454
13	Kanpur	Utter Pradesh, Uttaranchal	167	150	200
14	Bhubaneswar	Orissa	285	288	51
15	Guwahati	Assam, Arunachal Pradesh, Maniur, Meghalaya, Mizoram, Triupra	27	4	9
16	Patna	Bihar, Jharkhand	41	9	48
17	Jammu and Kasmir	Jammu & Kashmir	0	1	25
18	Region Not Indicated		21833	50283	26351
Sub Total			121907	147518	71976
19	RBI's NRI schemes (2000-2002)				
	Grand Total		121907		147518

Source: [http://www.dipp.nic.in/FDI\\_Statistics](http://www.dipp.nic.in/FDI_Statistics)

(Table G from the FACT sheet on FDI prepared under Dept. of Industrial Policy & Promotion-Govt. of India, Ministry of Commerce & Industry)

Mumbai, New Delhi and Chennai are the three RBI regions which attracted higher amount of FDI Equity Inflows in India. This is based on the 3 years statistics from 2012 to 2013.

#### Findings Of The Study:

1. Around 140 countries are included in the FDI inflows in India.
2. Around 38 countries are included in FDI inflows through RBI automatic route in India
3. In common, Automobiles, Drugs and construction sectors are attracting high percentage of FDI equity inflows in India
4. Mumbai, New Delhi and Chennai are the three RBI regions which attracted higher amount of FDI Equity Inflows in India.
5. As per the 3 years data (2012-2014), Mauritius and Singapore is the best among the 10 Countries which comes under FDI Equity Inflows in India.

**Conclusion:** FDI includes international capital flows in which a firm in one country creates or expands a subsidiary in another. The distinctive feature of direct foreign investment is that it involves not only a transfer of resources but also acquisition of control. FDI, like external loans,

has given rise to a debate on its need, merits and demerits, as also on its impact on the growth and social welfare of the host country. Its advocates recommend it as an excellent method of speeding up economic development and bridging the gulf between advanced and developing countries. In contrast, its opponents view it as a new form of exploitative colonialism. However, we may infer that the advantages of FDI more than outweigh its disadvantages. This inference is derived from the fact that almost every country is eager to welcome it, albeit with certain safeguards and precautions.

Equally relevant is the consideration that FDI should not replace domestic investment; it should only supplement it. Whether or not this would happen depends, amongst others, upon a host of factors including the roles accorded to public and private sectors within the host country and efficiency of domestic firms compared with that of the FDI firms. Hence, there is nothing predetermined about the link between FDI inflows and economic performance of the host country and larger inflows could well create more problems than they solve. In order to encourage FDI and safeguard the national priorities, most countries offer incentives for FDI.

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SANITHA AC/Research Scholar (Commerce) St. Albert's College/  
Ernakulam. (M G University-Kottayam) Kerala/  
India/ 09562577163/ [rssanithachandran@gmail.com](mailto:rssanithachandran@gmail.com).