# A STUDY ON TRENDS OF FDI IN MAJOR SECTORS IN INDIA

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***Abstract:*** After economic reforms of 1991, India realized the importance of Foreign Direct Investment.FDI helps in economic progress of every nation. To achieve economic growth, India would require huge foreign direct investment. To attract more and more FDI Government of India has put in place a liberal FDI policy. It is observed that India has not been able to attract more and more FDI during last 5 years. And the reasons for this are global economic slowdown and some problems at domestic level.

***Keywords:*** Economic Progress, Foreign Direct Investment, Global Economic Slowdown, Liberal FDI Policy.

## INTRODUCTION

In the year 1991 Government of India has realized that Foreign Direct Investment can increase the economic growth of a country and started series of financial and economic reforms. The Government of India started the second generation reforms in 2003, in order to increase the flow of foreign direct investment which in turn, helped to integrate the country's economy with the economy of the world.

Government of India has put in place a liberal FDI policy. Under this policy Government of India permits FDI up to 100 % without prior approval in most of the sectors including the services sector under automatic route. Due to this new FDI policy of Indian Government, India is becoming favored destination for investment and faster economic growth.

Total FDI into India, since 2000, including equity inflows, reinvested earnings and other capital is US $ 275.02 billion up to 2012.According to WIR (World Investment Report) by UNCTAD, India continued as third most attractive location for FDI .The report also mentions that India accounted for more than 4/5$^{th}$ of the FDI in South Asia.

## OBJECTIVES OF THE STUDY

1. To study the FDI inflows in seven major sectors in India.
2. To analyze the sector wise FDI in India from 2008 to January 2013.

## RESEARCH METHODOLOGY

This research study is based on secondary data. The main sources of secondary data are various journals, articles, RBI Bulletins, SIA Bulletins and websites of Department of Industrial Policy &Promotion, Ministry of Commerce and Industry etc. The study is based on time period from 2008-2013.Graphs have been used to depict statistical data during the study period.

## REVIEW LITERATURE

Kumar and Karthika found out in their study on "Sectoral Performance through Inflows of Foreign Direct Investment (FDI)", that Foreign Direct Investment has a major role to play in the economic development of the host country. Most of the countries have been making use of foreign investment and foreign technology to accelerate the place of their economic growth. FDI ensures a huge amount of domestic capital, production level and employment opportunities in the developing countries, which a major step towards the economic growth of the country [2].

Singh stated in their study that 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 paper highlighted 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 [3].

Balasubramanyam and Sapsford stated in their article "Does India need a lot more FDI" compared the levels of FDI inflows in India and China, and found that FDI in India is one tenth of that of china. The paper also concluded that India may not require increased FDI because of the structure and composition of India's manufacturing, service sectors and her endowments of human capital and the country is in a position to unbundle the FDI package effectively and rely on sources other than FDI for its capital requirements [6].

Chandan Chakraborty, Peter Nunnenkamp8 (2004) in their study "Economic Reforms, FDI and its Economic Effects in India" assess the growth implications of FDI in India by subjecting industry – specific FDI and output data to

Granger causality tests within a panel co -integration framework. It turns out that the growth effects of FDI vary widely across sectors.

**Performance of Major sectors attracting the highest amount of FDI in India**

Due to the relaxation of rules and regulations various Indian market sectors have experienced a recent progress and boom, owing to the investment made in them.

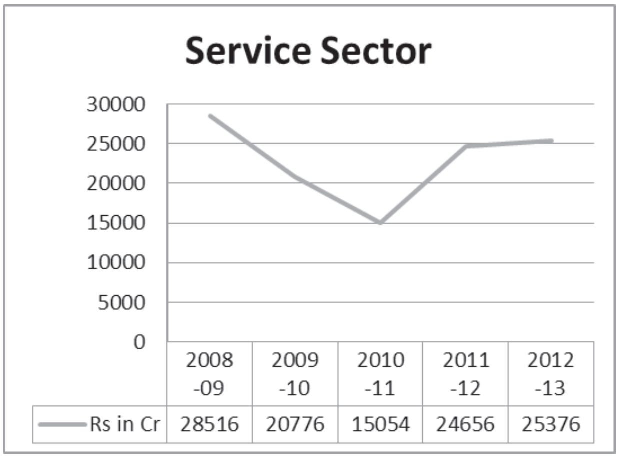
As we all know India stands today as the largest democracy, its administrative as well as the political set up have many flaws and shortcomings. The Indian system of administration and governance is impregnated with flaws like shortages of power, bureaucratic hassles, political uncertainty, and infrastructural deficiencies .In spite of all these political shortcomings, India is perceived to be one of the most lucrative grounds for investing, in the eyes of the wealthy European as well as American investors. This is the true reason why the researches made into the sector establishes more and more foreign investors coming to India and investing liberally into the various sectors of the Indian economy.

In spite of the uncertain global economic climate, foreign investors anticipate India to be an attractive investment option. The top seven industry sectors which are prone to attract FDI for India are:

1. **Service Sector:-**

Services sector in India includes Financial, Banking, Insurance, Non-Financial / Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis. The Services Sector contributes the most to the Indian GDP. The Sector of Services in India has the biggest share in the country's GDP. Indian service sector is generating the proper employment options for skilled worker with high perks.

***Trends in Service Sector***




Service sector has received greater portion of FDI.

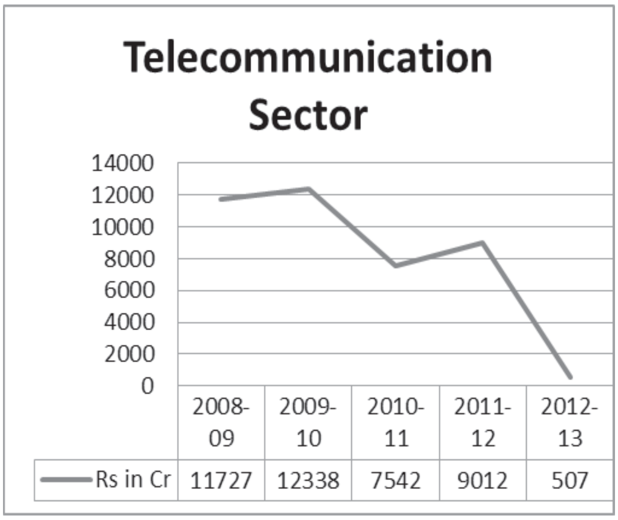
During 2008-09 this sector was at highest level, due to the growth of sub sectors like Financial Services, Insurance sector, IT etc. There was a new wave in the growth of India financial sector after liberalization insurance and banking industry growing with rapid rate due the number of merger and acquisition in the insurance industry as well as in banking sector also.

FDI flows in service sector experienced one of the sharpest declines from 2009-10, due to financial crises in the world. From last 2 years this sector remains stable.

**2. Telecommunication Sector:-**

Indian telecom sector is the second largest wireless network in the world after China. Wireless telephones are increasing at a faster rate.100% FDI is permitted in the area of telecom equipment manufacturing and provision of IT enabled services. This has made telecom one of major sectors attracting FDI inflows in India.

***Trends in Telecommunication Sector***



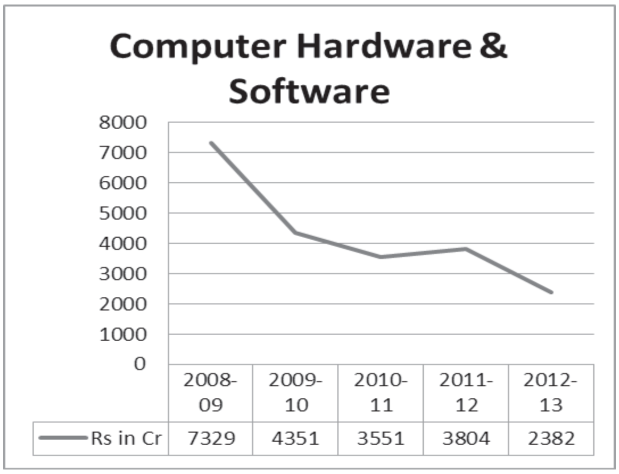

In the year 2009-10 the level of flow of FDI in telecommunication sector was at high level, the reason was new licenses were granted by the Department of Telecom (DOT) and cap on number of players in a circle was removed. In the year 2010 3G and BWA auction took place.

After 2010 there is continuous decline in FDI flow. This is due to cancellation of telecom licenses last year by the Supreme Court in 2G spectrum allocation case and unstable policies of Government of India. Another reason behind this is global economic slowdown.

**3. Computer Hardware And Software sector:-**

100% FDI is permitted under automatic route in India. Software Technology Park (STP) has been a major initiative in India to drive in FDI in computer software industry. Computer hardware market in India is huge, coupled with the availability of skilled workforce in this sector has boosted the inflow in Indian. Due to increased consumption in India as well as increasing demand for export are expected to lead to more FDI in this sector.

***Trends in Computer Hardware &Software Sector***

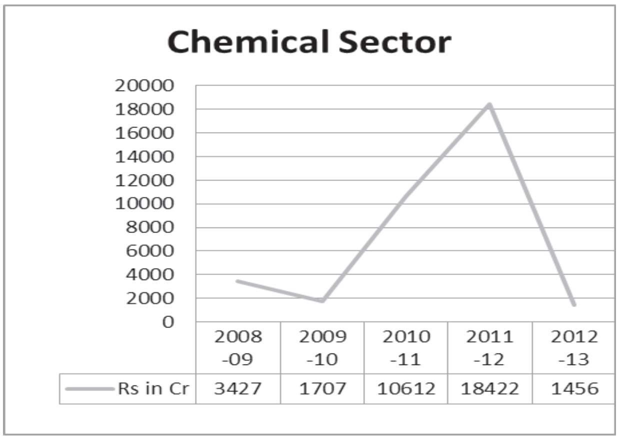



The flow of FDI into computer hardware and software has been downward ever since 2008-09. It has drastically gone down. The reason is the turmoil prevailing in most of the developed nations which are a big market for the Indian IT industry.

**4. Chemical Sector:-**

India is positioned as the third-largest producer in Asia, next to China and Japan, and the 12th-largest in the world in term of volume of production of chemicals. The sector provides chemicals for various end products such as textiles, paper, paints and varnishes, leather, etc.This sector contributes around 20% to national revenue by way of taxes and levies. Today, India has a significant presence in the production of basic organic and inorganic chemicals.

***Trends in Chemical Sector***



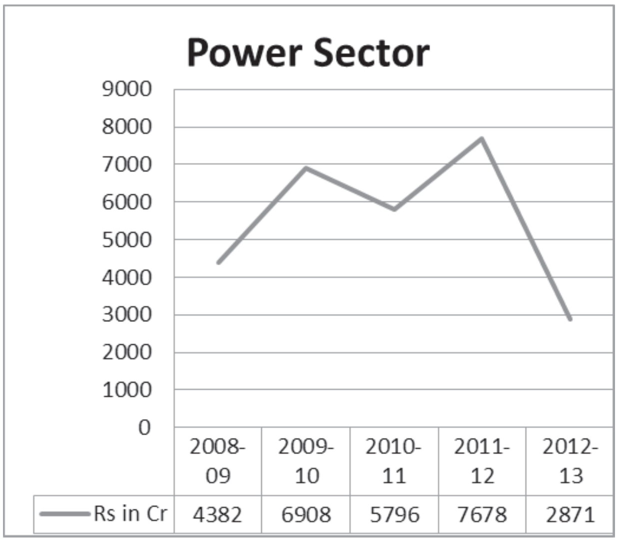

The flow of FDI in Chemical sector was sharply increased from 2009-10 to 2011-12.The reason behind this was Government has de-licensed most chemical products. And the second reason is high own consumption. The Indian chemicals industry has a diversified manufacturing base that produces world-class products.

But from the year 2011-12 there is dramatic reduction in flow of FDI in Chemical sector and the reason is decrease in the number of industrial investment proposals and Industrial Entrepreneur Memoranda (IEMs)

**5. Power Sector:-**

India has abundant sources of power production. Thermal power in India accounts for roughly two-thirds of the power generated in India. Solar power, biomass and wind power too have high potential for future development. According to the Ministry of Power, the scope for investments in the Indian power sector is more than USD 300 billion. There is no customs duty on the import of capital goods for mega power projects.

***Trends in Power Sector***



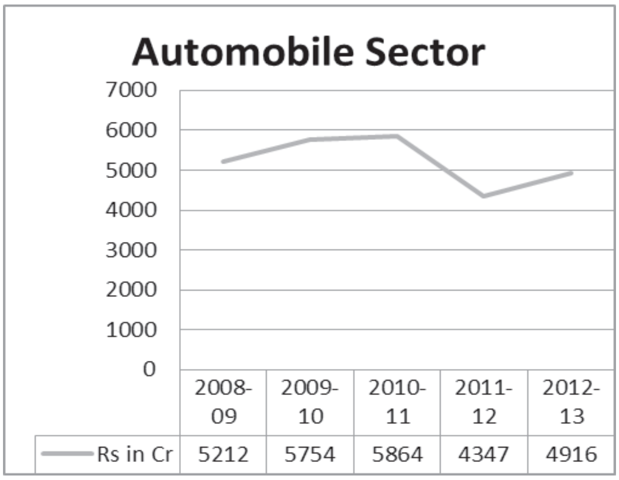

The flow of FDI into Power sector rose in the year 2009-10 and 2011-12, due to opportunities in renewable sources of energy. Another reason is Power projects involving generation and distribution tasks are allowed in all types and sizes.

FDI flow into power sector dropped in the year 2010-11 and 2012-13, due to global economic slowdown and problems at the domestic front. Power sector show continues ups and downs in flow of FDI.

**6. Automobile Sector:-**

The Indian auto industry, comprising passenger cars, two-wheelers, three-wheelers and commercial vehicles, is the seventh-largest in the world. Two-wheelers dominate the Indian market; more than 75% of the vehicles sold are two wheelers. The main automobile hubs in India are based at Chennai, Gurgaon, Manesar, Pune, Ahmedabad, Halol, Aurangabad, Kolkata, Noida and Bangalore. Automobile industry is a fully delicensed industry and free imports of automotive components are allowed. Moreover, the government has not laid down any minimum investment criteria for the automobile industry.

***Trends in Automobile Sector***

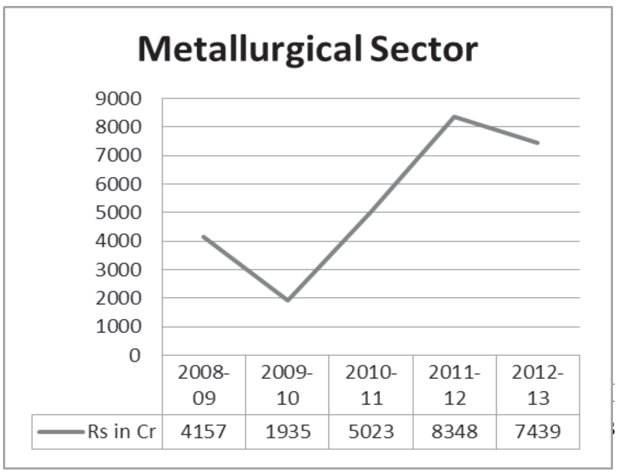



The flow of FDI is steady in automobile sector. However since 2002 when the equity caps for foreign investors had been lifted the automobile industry has witnessed a steady growth in the inflow of foreign funds. Another reason for steady growth is too many taxes levied by Government increase the cost of production.

**7. Metallurgical Industries:-**

The Indian Metallurgical industry is the biggest manufacturer of sponge iron across the world. This sector is largely dominated by the public sector in India. The major players in the metallurgical industries are SAIL, Nalco, Tata Steel, Sterlite and Hidalgo.The increased inflow of FDI in metallurgical industry has helped to bring in the latest technology to the industry.

***Trends in Metallurgical Sector***




increase is Acquisition and Joint ventures. Japan-based company JFE Holdings had acquired 14.99% stake in JSW Steel and joint venture between Posco and Arcelor-Mittal of more than Rs.2 lakh crore.

## CONCLUSION

It is observed that every nation is in the race of attracting more and more FDI inflows to accelerate the pace of economic progress. India is one among them. As in order to achieve and sustain a healthy rate of growth India would require huge investments. Therefore the government needs to look at alternate avenues of building up investments; FDI in this context is a very useful mechanism.

To attract more FDI in India Government of India has put in place a liberal FDI policy. As per this new FDI policy, Government of India permits FDI up to 100 % without prior approval in most of the sectors including the services sector under automatic route. This is much easier for any foreign investors who want to invest in India.

Though India is trying to attract more and more FDI by competing with other economies, it is seen that India has not been a large recipient of FDI during last 5 years. The overall flow of FDI into almost all the sector had declined during last few years. Two things have impacted the inflow of FDI - the global economic slowdown and problems at the domestic front.

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