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FOREIGN DIRECT INVESTMENT (FDI) INFLOWS IN INDIA: ITS TRENDS AND SCOPE

Sumbul Fatima[1], Zia Afroz[2]

Abstract: Indian Economy has adopted the LPG (Liberalization, Privatization and Globalization) in the year 1991, which has brought dramatic changes into the Indian Economy impacting its economic growth and its relationship with the outside world. Indian being one of the most emerging economies of the world, various developmental plans and schemes has been adopted by Government of India to attract the investments from the other countries giving a way to FDI inflows. The main focus of this paper is to throw light on the country wise and sector wise inflows of FDI in India as well as to bring into the knowledge of the scope of FDI in the Indian context. As regards country wise FDI inflows in India, Mauritius holds the highest rank with 37% of total FDI inflows. The Sector attracting highest FDI Equity inflows has been the Services Sector including both financial and non-financial. It can also be seen that FDI also open opportunities in bringing advance technology, creating more employment and healthy competition etc. in India.
Keywords: FDI inflows, mergers, acquisitions, mediators, competition.

I. INTRODUCTION

Foreign direct investment (FDI) is a direct investment into production or business in a country by a company in another country, either by buying a company in the target country or by expanding operations of an existing business in that country. Foreign direct investment has a number of different forms. Broadly, foreign direct investment includes mergers and acquisitions, building new facilities, reinvesting profits earned from overseas operations and intra company loans. In a narrow sense, foreign direct investment refers just to building new facilities. Generally Foreign Direct Investment (FDI) emerges as a joint venture or some times obtaining a share in an existing firm in any other countries. As India is well known for its rich culture and diversified people, climatic conditions, languages, geographic and natural resources. The year 1991 has changed the Indian economic scenario because of the introduction of LPGs (Liberalization, Privatization and Globalization) which has allowed foreign capital to flow into the Indian Economy. After this the potential of the economy came to be known and therefore India became the attractive nation for the foreign investors. Since then government has been quite liberating in bringing FDI into the country.

It has been observed by many economists that foreign direct investment inflows have been strongly associated with GDP growth in many developing countries since 1970's (Nayak, 2000; Badar, 2006). That is why many developing countries have deregulated their markets, privatized national enterprises, liberalized private ownership and encouraged regional integration in an effort to create a favorable setting for foreign investments. The global flows of Foreign Direct Investment (FDI) have taken a dramatic stride in recent years. The global FDI inflows rose from US$ 540 billion in 1980-81 to US$ 1.8 trillion in2007-08 growing annually at a rate of 18 percent. In support of FDI the Prime Minister said the following: "It (FDI) would introduce new technology and investment in marketing agricultural produce. India must take full advantage of modern technology and operational and management experience of big supply chains in the food retail business to make this happen." at Punjab Agricultural University's golden jubilee function at Ludhiana.

II. OBJECTIVES

The main objectives of this research paper are as follows:-

1. To analyze the country wise inflows of FDI in India.
2. To examine sector wise FDI inflows.
3. To identify the main sectors attracting highest FDI equity inflows.

III. SCOPE OF FDI IN INDIAN ECONOMY

The rapid growth of world population since 1950 has occurred mostly in developing countries. This growth has not been matched by similar increases in per-capita income and access to the basics of modern life, like education, health care, or - for too many - even sanitary water and waste disposal. FDI has proven when skillfully applied to be one of the fastest means of, with the highest impact on, development. However, given its many benefits for both investing firms and hosting countries, and the large jumps in development were best practices followed, eking out advances with even moderate long-term impacts often has been a struggle. Recently, research and practice are finding ways to make FDI more assured and beneficial by continually engaging with local realities, adjusting contracts and reconfiguring policies as blockages and openings emerge. Following points would highlight the importance –

A. ADVANCEMENT AND STANDARD

With adopting the organized methods of production – procurement, processing, transport and delivery – adds value to the product. This happens because it uses international best practices and modern technology, ensuring maximum efficiency and minimum waste. FDI through one of its organized retailing enables on-site processing, scientific handling and quick transport through cold storage chains to the final consumer. Once modern retailers introduce an organized model, other vendors, including small retailers, would mechanically copy this model to improve efficiencies, boost margins and stay in business. Organized retail would thereby bring more stability to prices, unlike the present system where hoarding and artificial shortages by profiteering intermediaries push up product prices.

B. BETTER PRICES TO FARMERS

One of the biggest arguments in favor of FDI in retail has been that this would eliminate multiple layers of middlemen thereby giving better prices to the farmers. It would reduce cost and profit margin in the hands of middlemen and hence benefitting the farmers.

C. QUALITY AND PURE PRODUCTS

Obtaining and consuming quality products is a desire of every customer who are entitled to receive quality products, produced, processed and handled under a hygienic environment through professionally-managed outlets which is possible through FDI.

D. EMPLOYMENT OPPORTUNITIES

Despite predictions from some analysts that millions of jobs would be lost due to FDI, it may in fact be the other way around. For example, with the entry of branded retailers, the market would increase, creating additional employment in retail and other tertiary sectors. Given their professional approach, organized retailers would allot some quantity of resources towards the training and development of the resources they employ. This effect of branded retailing can already be seen with the Bharti-Wal-Mart collaboration, which has joined forces with state governments to open training and development centers in Amritsar, Delhi and Bangalore, preparing local youth for jobs in retail. Training is entirely free and more than 5,600 local youth have already been trained. Retail jobs don't require higher education or highly specialized abilities.

E. BETTER WAGES TO WORKERS

Another advantage of FDI is that it would help a lot in improving the miserable condition of Indian farmers who are committing suicides on daily basis because of lesser return from their agricultural produce. But FDI would certain help a lot in improving their conditions as the farmers are going to get 10 to 30% higher remuneration because of FDI.

F. INCREASE IN GOVERNMENT REVENUE

Government revenues are certainly going to increase a lot because of FDI. Government revenues would increase by 25 to 30 billion dollars which is a really big amount. This government revenue can help a lot in the development of the Indian economy.

G. END OF MEDIATORS

Today's intermediaries in the course of producers and customers add no value to the products, rather adding huge amount to final costs. The time taken by the product to reach to the ultimate consumer, it loses its freshness and quality because of which it results into wastage. However, intermediaries earn huge amount of profits through selling at a higher rate to the consumer while purchasing at a quite lower rate from producers or manufacturers. This always creates imbalanced system that produces multiple intermediaries who benefit which would be reduced through FDI.

H. HEALTHY COMPETITION

The entry of foreign investors introduces competition which would be beneficial to some and would be disadvantageous to others. The beneficiary group in this case includes the Indian consumers, the lower middle class, who would get high enough paying jobs that would be created, and the manufacturers -- including farmers –who were at the mercy of the middlemen prior to the entry of FDI would also be benefited.

I. IMPROVED TECHNOLOGY AND LOGISTICS

Through FDI improved technology would be used in the course of processing, grading, handling and packaging of goods and further technical developments in areas like electronic weighing, billing, barcode scanning etc. would be started prevailing even in the retail small shops in India which would be the direct consequences of foreign companies. Further, a boost could be felt in transportation facilities in terms of using refrigerated vans and pre-cooling chambers which would definitely results as a heavy downfall in the wastage of goods.

Table 1: share of top investing countries fdi equity inflows in recent financial years

Ranks	*Country*	*2011-12 (April - March)*	*2012-13 (April – March)*	*2013-14 (April, 13-January, 2014)*	*Cumulative Inflows (April '00 - January '14)*	*%age 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 %**
2.	**SINGAPORE**	24,712 **(5,257)**	12,594 **(2,308)**	21,521 **(3,678)**	111,703 **(23,139)**	**11 %**
3.	**U.K.**	36,428 **(7,874)**	5,797 **(1,080)**	20,249 **(3,187)**	100,708 **(20,735)**	**10 %**
4.	**JAPAN**	14,089 **(2,972)**	12,243 **(2,237)**	6,173 **(1,009)**	76,268 **(15,559)**	**7 %**

5.	**U.S.A.**	5,347 **(1,115)**	3,033 **(557)**	4,280 **(721)**	55,203 **(11,842)**	**6 %**
6.	**NETHERLANDS**	6,698 **(1,409)**	10,054 **(1,856)**	10,376 **(1,700)**	52,754 **(10,665)**	**5 %**
7.	**CYPRUS**	7,722 **(1,587)**	2,658 **(490)**	2,835 **(464)**	35,163 **(7,353)**	**3 %**
8.	**GERMANY**	7,452 **(1,622)**	4,684 **(860)**	4,920 **(849)**	30,432 **(6,330)**	**3 %**
9	**FRANCE**	3,110 **(663)**	3,487 **(646)**	1,737 **(288)**	18,602 **(3,861)**	**2 %**
10.	**U.A.E.**	1,728 **(353)**	987 **(180)**	1,406 **(230)**	12,713 **(2,652)**	**1 %**
TOTAL FDI INFLOWS FROM ALL COUNTRIES *		**165,146 (35,121)**	**121,907 (22,423)**	**113,401 (18,749)**	**1,010,314 (212,152)**	-

Source: - Department of Industrial Policy and Promotion

It is evident from the above table no. 1 that Mauritius, Singapore and U.K. hold 58% of the FDI inflows. These countries have much higher inflows of in comparison with other countries. Moreover, it is interesting to note that Mauritius which was not in the top nine investing countries till 2007-08 but now it has out passed all these countries and have attained the top position. Earlier U.S.A. was in the lead with the total inflows of 22% which has now declined to only 6%. Similarly a decline of about 11% in total inflows of FDI with respect to U.K. which was 21 % till 2007-08 and now standing at 10% till 2013-14.

Table 2: sectors attracting highest fdi equity inflows

Ranks	*Sector*	*2011-12 (April - March)*	*2012-13 (April- March)*	*2013-14 (April, 13- January , 2014)*	*Cumulative Inflows* (April '00- *January '14)*	*% 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 %**
2.	**CONSTRUCTION DEVELOPMENT: TOWNSHIPS, HOUSING, BUILT-UP INFRASTRUCTURE**	15,236 **(3,141)**	7,248 **(1,332)**	5,914 **(966)**	106,963 **(23,047)**	**11 %**
3.	**TELECOMMUNICATIONS** (radio paging, cellular mobile, basic telephone services)	9,012 **(1,997)**	1,654 **(304)**	1,063 **172)**	59,796 **(13,028)**	**6 %**
4.	**COMPUTER SOFTWARE & HARDWARE**	3,804 **(796)**	2,656 **(486)**	6,230 **(1,020)**	59,796 **(13,028)**	**6 %**
5.	**DRUGS & PHARMACEUTICALS**	14,605 **(3,232)**	6,011 **(1,123)**	7,128 **(1,269)**	56,008 **(12,711)**	**5 %**
6.	**CHEMICALS (OTHER THAN FERTILIZERS)**	18,422 **(4,041)**	1,596 **(292)**	2,950 **(496)**	43,446 **(9,376)**	**4 %**
7.	**AUTOMOBILE INDUSTRY**	4,347 **(923)**	8,384 **(1,537)**	6,144 **(1,050)**	45,314 **(9,344)**	**4 %**
8.	**POWER**	7,678 **(1,652)**	2,923 **(536)**	4,281 **(704)**	40,418 **(8,538)**	**4 %**
9.	**METALLURGICAL INDUS**	8,348 **(1,786)**	7,878 **(1,466)**	2,599 **(432)**	37,413 **(7,939)**	4 %

	TRIES					
10	**HOTEL & TOURISM**	4,754 **(993)**	17,777 **(3,259)**	2,306 **(382)**	35,566 **(7,013)**	**3 %**

Source: - Department of Industrial Policy and Promotion
The sector wise analysis of FDI inflow in India reveals that maximum FDI has taken place in service sector with 18% although declined from 20.50% during 2004-08. Share of construction development has increased from 5.67% (2004-08) to 11% (2011-14) acquiring second rank from forth. Moreover Telecommunications has been on the third rank but with the decrease of 1.8% (7.8% to 6%).The Indian Pharmaceutical industry, Chemical; Power and Metallurgical industries have experienced almost a double increase with total inflows of FDI from 2004 to 2014.

III. CONCLUSION

Foreign Direct Investment in India although seems to affect overall economy but the real picture is quite different. If we see it as a long run phenomenon then we would be able to understand its positive effect on the growth and development of the economy. India being one of the most resourceful economies in agricultural produce, it needs to have effective and efficient organizing agencies. Though the government may be having finance in order to distribute and channelize the agricultural and industrial produce but at the same time India lacks the effective and efficient manpower. Hence, to uplift the standard, FDI is needed in India where they are able to organize the produce from one producer to the ultimate consumer. If we analyze, we may conclude that once the habit made could not be changed as easily as it was adopted. Example: Opening of malls didn't lead to the closure of unorganized markets rather headed towards a healthy competition among retailers and raised the market standard letting the consumers choose themselves to purchase at the best price. Entry of foreign investors like in Thailand and China boosted the retail and the export, therefore, India would also be able to bear fruitful results from FDI through employment generation, technically upgraded products, healthy competition, better prices, government revenue and many more.

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