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HYPOTHESES
RESEARCH METHODOLOGY
RESULTS & DISCUSSION
FINDINGS
RECOMMENDATIONS/SUGGESTIONS
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TOWARDS THE NEED OF EFFICIENCY - SEEKING FDI FOR A FASTER AND MORE INCLUSIVE GROWTH IN INDIA

B. N. LALITHCHANDRA
ASST. PROFESSOR
DEPARTMENT OF M.B.A
EMERALDS ADVANCED INSTITUTE OF MANAGEMENT STUDIES
KODANDARAMAPURAM

ABSTRACT

The recent boom in world-wide FDI inflows constitutes a major element of economic globalization. As a result the exports remained the dominant form of corporate internationalization strategies and globalization through FDI has gained significantly in relative importance. After the recent financial crisis, South, East and Southeast Asia emerged as the most important host region among developing countries. However, in recent years, it is commented that a high concentration of FDI in a few large and fairly advanced developing economies has become one of the problems and though most of the developing countries, have been attracting a significant proportion of Global inflow of FDI, it is argued that they are more market-oriented in nature and not efficiency-seeking. Keeping these observations in view, an attempt is made in this paper to analyze the trends in the FDI inflows with special reference to India. Fundamentally relying on secondary data, the present paper presents a critical analysis of FDI in India particularly focusing on sectoral, regional and dominance of investing countries, which might be considered as the major reasons for comparatively less effective in the process of achieving faster and more inclusive growth in India. Particular focus is laid on south-north inequalities, sectoral inequalities and the need for initiation of necessary measures to attract FDI from the friendly-advanced countries.

KEYWORDS
Investment Motives and Impediments, FDI inflows, Sectoral and regional Concentration, Efficiency-seeking FDI.

INTRODUCTION

It was felt until the last decade of 20th century that FDI was a phenomenon associated with highly developed countries. Contrary to this conception in recent years, many of the developing countries are attracting larger amounts of FDI inflows as a result of their economic liberalization policies. Particularly after the financial crisis in Asia and Latin American countries, developing and newly industrializing countries have felt that FDI was the best source of supplementing their national savings and also for achieving economic development. Their preference was propelled by basic properties of FDI like risk-sharing, stimulating the economic growth than other types of capital inflows, FDI offers access to internationally available technologies and generates employment opportunities and improves like skill-levels of human resources. Based on these properties and the most common investment motivations, economists (Caves, 2007; Dunning 1973, 1993; Johnson, 2006; Botric and Skuflic, 2005) have identified the following three types:

- Resource-Seeking FDI
- Market-Seeking FDI
- Efficiency-Seeking FDI

Resource-seeking FDI aims at gaining access to natural resources, particularly those that may be scarce in the country where the acquirer is located. Energy companies are seeking resources when they purchase oil fields overseas is the best example for this kind of FDI. Market-seeking FDI aims at gaining access to foreign markets. It is attracted by factors like host country market size, capital income and market growth. Companies may find it less costly or easier to produce or assemble goods in or near target markets. Foreign car companies seeking markets when they build assembly plants in United States is the best example for this type of FDI. The Motivation of efficiency seeking FDI takes the advantage of different factor endowments, cultures, institutional arrangements, economic systems and policies and market structures by concentrating production in a limited no. of locations to supply multiple markets.

The World Investment Report – 2014 (UNCTAD) observed that domestic market growth potential (45.4%), proximity to markets or customers (33.0%) and Regulations/business climate (20.6%) are the driving motivations for the investors around the globe. The motivating factor of availability of skilled workforce was cited as the important determinant of FDI by 17.7 per cent of the investors. The report further observed that market size (GDP) is the most important determinant by which the larger economies have experienced higher inflows of FDI. The results of the single-variant regression model also revealed that there was a strong positive correlation between market size (GDP) and FDI. It is estimated that FDI inflows have increased by 9 per cent in 2013 to $1.45 trillion and UNCTAD projected that FDI inflows could rise to $ 1.6 trillion in 2014, $ 1.7 trillion in 2015 and $ 1.8 trillion in 2016 with relatively larger increases in developing countries. All these illustrations reveal that the market size is the single dominant motivation that attracts larger amounts of FDI around the globe.

According to FDI Report-2014, our country, India, stood at second place in terms of market share of 8.57 percent, after China (34.73 percent) in Asia-Pacific region. However, with reference to capital Investment in Asia-Pacific region, India was ranked as the 4th country with a market share of 7.6 per cent. The information on inflows of FDI into Asia-Pacific region also reveals that coal, oil and natural gas (14.0 percent), real estate, hotels and tourism (13.5 percent) and business and financial services (10.8 percent) were the dominant sectors which have attracted the inflow of FDI.

OBJECTIVES OF THE PAPER

The foregoing discussion reveals the fact that market dominance is the main driver of inflows of FDI's and the nature of FDI is primarily market-seeking and to attract FDI where in the aim of improving the efficiency of the economy is given a neglected importance, attaching much importance to consumption-oriented FDI. Keeping this nature of FDI attracted by Asia-Pacific region, the present paper makes an economic analysis of inflows of FDI with special reference of India. Specifically, the paper aims at:

- an analysis of sectoral distribution of FDI equity inflows.
- an examination of regional distribution of FDI inflows, and
- an assessment of shares of investing countries and their contribution to India.

METHODOLOGY

The paper relies on secondary data collected from Fact Sheet on FDI (from April 2000 to November, 2014), Reports of UNCTAD on Global Investment Trends Monitor,World Investment Report-2014 and Reports of the Global Forum on International Investment (OECD). Specifically the paper also lends support from the research papers published in Economic and Political Weekly, International Journal of Core Engineering and Management, Economic Survey-2013-14, and Monthly Economic Reports for the year 2014, published by Ministry of Finance, Government of India.

DISCUSSION AND RESULTS

It is argued in recent days that China is the country, in the international economic affairs, identified as the 'Super economic power', which is attracting, investing and efficiently using the inflows of FDI. As a result, its merchandise exports accounted for 25.93 percent in 2011, as against its merchandise imports, which accounted for 23.81 percent of its GDP. The efficient use of FDI in China was identified as the major source of its 'productivity gains' and rapid economic and trade growth. In the case of India, the merchandise exports were 16.11 percent as against the imports of 24.70 percent in 2011 resulting into an increasing volume of trade deficit. Foreign invested enterprises were the efficient drivers for China manufacturing sector and its export potential, overtaking Japan and USA. India still depends substantially on agriculture and services as the contributors of its development and exports. It seems, comparatively India has been employing FDI less efficiently to provide a boost to its export potential, which eventually has been the main reason for ever increasing trade deficit.

Generally when we speak about the foreign investment, we consider both foreign portfolio investment and foreign direct investment. However, the current research proved that foreign direct investment is more efficient and sustainable as it brings better technology and management, marketing networks and offers competition also. Particularly in India, it is felt that foreign direct investment helps Indian companies improve, quite being apart from being good for consumers. Government of India has also initiated many attractive measures to invite the foreign institutional investors to invest by way of stake from Indian stock market. It is believed that this two-pronged strategy is very much helpful for the growth of Indian economy. Before entering into the analysis of the main theme of the present paper, let us have a look at the inflows of FDI and FII funds into India from April 2000 to September, 2014. Table. 1 presents the details of inflows in to India.

TABLE 1: FINANCIAL YEAR-WISE INFLOW OF FDI AND FII FUNDS INTO INDIA DURING 2000-2014 (Amount in US $ million)

Financial Year	Total FDI Inflows into India (Equity, Reinvested earnings and other capital)	Foreign Institutional Investors Fund (net)
2000-01	4,029 --	1,847
2001-02	6,130 (+) 52%	1,505
2002-03	5,035 (-) 18%	377
2003-04	4,322 (-) 14%	10,918
2004-05	6,051 (+) 40%	8,666
2005-06	8,961 (+) 48%	9,926
2006-07	22,826 (+) 146%	3,225
2007-08	34,843 (+) 53%	20,328
2008-09	41,873 (+) 20%	(-) 15,017
2009-10	37,745 (-) 10%	29,048
2010-11	34,847 (-) 8%	29,422
2011-12	46,556 (+) 34%	16,812
2012-13	34,298 (-) 26%	27,582
2013-14	36,046 (+) 5%	5,010
2014-15 (April to November)	27,401	--
Cumulative Total (From April 2000 to November, 2014)	350,963	149,663

Source: Fact Sheet on Foreign Direct Investment (FDI) Updated upto November, 2014, p.4.

Note: figures in the brackets denote percentage growth over previous year.

Keeping balance of payments situation of India in recent years, it is highly essential to attract and employ FDI into economic activities for improving the productivity gains not only from agriculture and services, but also from industrial sector. The paper identifies the following three contributing factors for insignificant contribution of FDI inflows into India.

- Sectoral Concentration
- Regional Concentration, and
- Dominance of Investing Countries.

All the above identified factors are critically analyzed in the following paragraphs:

1. SECTORAL CONCENTRATION

The cumulative FDI inflows into India (2000-2014) and the sectors attracting highest FDI equity inflows reveal that they are concentrated and employed in services, construction development and telecommunications as shown in Table.2

TABLE 2: A SNAPSHOT OF SECTORAL CONCENTRATION OF FDI EQUITY INFLOWS INTO INDIA

Rank		Cumulative FDI Equity Inflows (April 2000 to November,2014) (in US $ million)	Percentage to Total Inflows
1	**Services** (Financial, Banking, Insurance, Non-Financial/Business, Outsourcing , R&D, Courier, Tech, Testing and Analysis)	41,307.1	17.47
2	**Construction Development** (Townships, Housing, Built-up Infrastructure)	24,009.0	10.15
3	**Telecommunications** (Radio, Paging, Cellular Mobile, Basic Telephone Services)	16,634.6	7.03
4	**Computer Software and Hardware**	13,678.9	5.78
5	**Drugs and Pharmaceuticals**	12,751.1	5.39
6	**Automobile Industry**	11,351.3	4.80
7	**Chemicals** (Other than Fertilizers)	10.137.4	4.29
8	**Power**	9,450.1	4.00
9	**Metallurgical Industries**	8,294.1	3.51
10	**Hotel and Tourism**	7,661.6	3.24

Source: Fact Sheet on FDI (from April 2000 to November, 2014), P.8.

The data presented in Table. 2 reveals that major portion of the FDI inflows to the extent of 40.4 per cent were invested in Services, Construction, Telecommunications, Computer Software and Hardware. The other sectors like Hotel and Tourism, which are inbuilt with high employment generating and income earning potential, have attracted only 3.24 per cent of the total FDI inflows. Power sector, which is considered as the most important supporting infrastructure for the improvement in Human Development, attracted only 4.0 per cent and similarly the Drugs and Pharmaceuticals, which can exert a positive impact on decreasing the disease burden and improves the health of the people, attracted only 5.4 per cent of the total FDI inflows. These observations amply reveal that the sectoral concentration of FDI equity inflows represent the neglect of the sectors which are "efficiency (capabilities)-enhancing like health and infrastructure. Attention is to be paid to address these sectoral imbalances.

2. REGIONAL CONCENTRATION

The observations of UNCTAD (1995 and Collins, 1998) revealed that a widely perceived problem with FDI in developing countries is concerned with its high concentration in a few large and fairly advanced economies. It seems to imply that most developing countries do not have favorable prospects to attract FDI and it may also be due to the conclusion drawn based on the distribution of FDI in absolute terms. A similar analysis of distribution of FDI in India also reveal same pattern.

There are 17 regions identified with states covered under their jurisdiction receiving FDI Equity inflows in India. Four regions were identified in South India and 13 regions in North India. The southern region covers 4 states and 2 UTs – Tamilnadu, Karnataka, Andhra Pradesh and Kerala and Pondicherry and Lakshadweep. The southern region has attracted a small proportion of the total FDI Equity inflows to the extent of 16.4 per cent as shown in Table. 3.

TABLE 3: FDI EQUITY INFLOWS ATTRACTED BY THE SOUTHERN REGIONS (From April 2000 to November 2014)

S. No	RBI's Regional Office	States Covered	Cumulative Inflows in US $ million)	Percentage to Total Inflows
1	Chennai	Tamilnadu, Pondicherry	15,803	7.0
2	Bangalore	Karnataka	14,174	6.0
3	Hyderabad	Andhra Pradesh	9,728	4.0
4	Kochi	Kerala, Lakshadweep	1,066	0.4
All Southern Regional Offices			40,771	17.4
All Regional Offices (both identified and Not identified)#			236,586	100.0

Source: Fact Sheet on FDI (from April 2000 to July 2014), p.3.

Note: # excludes RBI's NRI Schemes (from 2000 to 2002)

The data presented in Table. 3 indicate that of the total FDI Equity inflows, southern regions identified have attracted a small proportion of the total FDI Equity inflows to the extent of 17.4 per cent only. Viewed from the state-wise attractions, Kerala (0.4 per cent) and Andhra Pradesh (4.0 per cent) are comparatively attracting almost negligible amounts of FDI inflows in India. The statement on region-wise FDI Equity inflows received show that Mumbai (30.0 per cent) and New Delhi (19.0 per cent) together have attracted major portion of the total inflows among all the regions in India. It is evident that all the Northern regional offices have attracted about 82.6 per cent of the total inflows in to our country. Even the positions of Tamilnadu and Karnataka were not found better as they attracted about 13.0 per cent of the total FDI Equity inflows.

Hence, the data presented leads to a conclusion that all the southern states have to equip themselves so that they may raise to the status of Mumbai and New Delhi for attracting FDI inflows. Necessary "attraction plans" based on the need and requirements of FDI inflows, the Governments have to design the policies and initiate efforts to attract FDI inflows. It could also be inferred from the data that there are regional imbalances in attracting the FDI inflows, which are to be addressed suitably and immediately.

3. DOMINANCE OF INVESTING COUNTRIES

An overview of the statement on country-wise cumulative FDI Equity inflows (from April 2000 to July 2014) reveals that FDI Equity inflows into India were contributed by around 140 countries and the share of majority of the investing countries account for less than 1.0 per cent of the total inflows. Around 11 countries were found contributing major share of more than 1.0 per cent. These trends reveal that there is a dominance of 3 investing countries, together contributing more than 57.0 per cent of the total inflows as shown in Table. 4.

TABLE 4: FDI INFLOWS BY DOMINANT INVESTING COUNTRIES (from April 2000 to September, 2014)

S. No.	Investing Country	Cumulative Amount of FDI Equity Inflows (in US $ million)	Percentage to Total Inflows
1	Mauritius	83,729.92	35.41
2	Singapore	29192.54	12.35
3	United Kingdom	21,761.27	9.20
4	Japan	17,556.86	7.42
5	Netherlands	13,664.81	5.78
6	USA	13,285.88	5.62
7	Cyprus	7,915.87	3.35
8	Germany	7,133.56	3.02
9	France	4,408.64	1.86
10	Switzerland	2,892.09	1.22
11	UAE	2,886.05	1.22
Selected Dominant Investing Countries (1 to 11)		204,427.49	86.41
All the Investing Countries		236,586.52	100.0

Source: Fact Sheet on FDI (from April 2000 to November, 2014) Updated up to November, 2014, p. 5, 6 and 7.

The data presented in Table. 4 explain the dominance of 11 countries, which are investing more than 86.0 per cent of the total FDI Equity inflows (US S 204,427.49 million) into India. Even among these 11 countries there are three highly dominant countries – Mauritius, Singapore and UK , which together account for about 57.0 per cent of the total inflows and among these three, Mauritius alone accounts for around 35.4 per cent of the total inflows. It is seen from the data that countries like France, Switzerland and UAE have invested less than 2.0 per cent each to the total inflows into India. Most of the developed countries, it seems, were remaining untapped in the investment inflows into India and it is imperative that efforts are to be initiated to tap the FDI potential not only of USA (5.62 per cent), Germany (3.02 per cent), Switzerland (1.22 per cent) but also of Spain (0.85 per cent), Hong Kong (0.54 per cent), Sweden (0.45 per cent), Russia (0.40 per cent) and China (0.19 per cent).

The recent bilateral talks of our Hon'ble Prime Minister are to be appreciated for attracting huge amounts of Foreign Investments particularly from Japan and China. Similar and more effective investment –attracting strategies are to be designed and implemented to attract higher amounts of FDI from the countries which are investing less than 5.0 per cent of the total inflows in to India. The attracting efforts would be successful only when a congenial economic and non-economic environment is to be created for doing business in India. The observations made by the recent Global Competitiveness Report -2014-15 serves well for identifying the areas and economic activities for which the inflow of FDI are of dire necessity and designing need-based strategies to attract FDI inflows into India.

CONCLUSION

No doubt, the present world came to a conclusion that FDI is the most effective source of investment for economic growth as FDI inflows facilitate the improvement of "productivity gains" in developing countries in general and for India in particular. Today many of the global consultancy services are considering India is poised for lot of action as the investors are keenly tracking the economy and various measures have been initiated by the present new Government. It is observed that the whole economic power is shifting towards emerging markets where India is among premier economies, and draws attention. It is also true that India is the only country with a young, growing and competitive workforce. A strong and deep investment foundation with capabilities across traditional and advanced technology sectors is the springboard for the present growth cycle. It is also estimated that India could achieve an additional Rs. 8 lakh crore of GDP and 25 million more jobs through a facilitative business environment. At this juncture every effort is to be made to attract foreign investments and it is highly essential to build up "business confidence" by offering a profit-generating environment for doing business in India. The operating environment for each business should be strengthened coupled with ensured access to finance, redefining investment limits, encouraging technology adaptation and facilitative regulation certainly transforms our India into a global hot-spot for entrepreneurial activity. Then only the strategy of our Prime Minister "Make in India" turns into a reality.

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