

# INTERNATIONAL JOURNAL OF RESEARCH IN COMPUTER APPLICATION & MANAGEMENT

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**TRENDS OF FOREIGN DIRECT INVESTMENT IN INDIA****DR. KARAMVIR SINGH SHEOKAND****ASST. PROFESSOR****IMSAR****M. D. UNIVERISTY****ROHTAK****PRIYANKA****ASST. PROFESSOR****DEPARTMENT OF BUSINESS ADMINISTRATION****HINDU COLLEGE****SONEPAT****RAJESH BHARDWAJ****ASST. PROFESSOR****DEPARTMENT OF COMMERCE****GOVERNMENT COLLEGE****GHARAUNDA****ABSTRACT**

Foreign direct investment (FDI) policies play a major role in the economic growth of developing countries around the world. Attracting FDI inflows with the conducive policies has therefore become a key battleground in the emerging markets. And this has led to competition among the states in formulation flexible policies and providing incentives to woo private investors. In the light of the above the paper highlights the trends of FDI in India after the economic reforms, Sector wise and Country wise share of FDI. Various factors which play a significant role in attracting FDI into particular state are also examined. The study is descriptive cum analytical in nature. The data was collected from the website of industrial Policy & Promotion and planning commission. In the current financial year (April 2011 to Jan 2012) Mauritius, Singapore, Japan USA and UK are the top five investors in India. The paper found that Service Sector is one of the most attractive sector for FDI inflow. Some of the states in India which have witnessed a massive upsurge in FDI (April 2011 to Jan 2012) inflows include Maharashtra, Delhi, Karnataka, and Tamil Nadu. Other states which are in the receipt of FDI inflows in India include Gujarat, Andhra Pradesh, West Bengal, Haryana, Kerala and Uttar Pradesh. (With reference to the website of Business Maps of India) States like Jharkhand and Bihar have not attracted enough FDI when compared with other states.

**KEYWORDS**

finance, FDI.

**INTRODUCTION**

Today, in the era of globalization and liberalization, FDI is looked upon by the countries (both developed and developing) as an engine for raising the economic growth and development. As per the available studies and researches FDI envelops with it many advantages. They are:

- New capital inflow and technology
- Increased competitiveness
- Transfer of knowledge and skills
- Increase in overall productivity
- Managerial efficiency
- Creates more employment opportunities

All these are very useful tools for an all around development and future of any country. India has emerged as a major recipient of FDI in South Asia after China. Though we cannot compare the FDI inflow in China to that of India, as China is much ahead of us and we have to still burn midnight oil to get maximum FDI in our country.

No doubt, the pace with which Indian economy is moving, it will sooner transform from a developing country to a developed country. And this road to transformation will need huge amount of resources (both financial and managerial). Under this transformation process, Foreign Direct Investment remains the most convenient and effective option for financial resources in India. According to the Planning Commission, FDI is "usually preferred over other forms of external finance because they are non-debt creating, non-volatile and their returns depend on the performance of the projects financed by the investors. FDI also facilitates international trade and transfer of knowledge, skills and technology." It is the duty of the government of a country to formulate, implement and administer the FDI policies. To a large extent the size and amount of FDI inflows in any country depends upon its macroeconomic policies.

India is a resourceful country where there is an adequate market for both capital and consumer goods. The availability of large amount of natural resources in the country as well as excellent market surroundings and highly trained and experienced resources, provide a better platform for investments. India is projected to become the second most attractive destination for FDI in 2010-12, as per UNCTAD's World Investment Report, 2010. The FDI had become important in India in the backdrop of the adoption of the economic reforms initiated in 1991. It was only after the reforms of 1991 wherein the liberalization process was also introduced by the then Prime Minister Mr. Narsimha Rao that India started getting foreign inflow of funds. This was followed by liberalization of the FDI policies also.

**OBJECTIVES OF STUDY**

1. To analyze the growth of Indian states in context of FDI inflow.
2. To study the factors contributing to the flow of FDI in a particular state

**RESEARCH METHODOLOGY**

Various descriptive and analytical tools have been used in the research paper. Secondary data from the website of Industrial Policy & Promotion and Planning commission have been used for the analysis. ([www.dipp.nic.in](http://www.dipp.nic.in))

**FDI EQUITY INFLOWS (MONTH-WISE) DURING THE FINANCIAL YEAR 2011-120**

TABLE NO. 1

Financial Year 2011-12 (April- March)	Amount of FDI (In US\$ mn)
April 2011	3,121
May 2011	4,664
June 2011	5,656
July 2011	1,099
August 2011	2,830
September 2011	1,766
October 2011	1,161
November 2011	2,538
December 2011	1,353
January 2012	2,004
2011-12(up to January 2012)#	26,192
2010-11(up to January 2011)	17,081
%age growth over last year	(+) 53%

Source: [www.dipp.nic.in](http://www.dipp.nic.in)

The FDI inflow of each month in the financial year 2011-12(April-Jan2012) in India and its growth rate are depicted in table1. It is very much evident from the table that the inflow of FDI has not remained consistent. In the financial year 2011-12 (up to January 2012), the total amount of FDI is US\$ 26,192 and percentage growth over last year is 53%.

**SECTORS ATTRACTING HIGHEST FDI EQUITY INFLOWS**

It is clear from the table no. 2 that service sector tops the list by having the FDI inflow US\$ 31,971 (from April 2000 to Jan 2012). On the second position is telecommunications with total FDI inflow of US\$ 12,547 (from April 2000 to Jan 2012). On the third position is computer software and hardware with total FDI inflow of US\$ 11,107(from April 2000 to Jan 2012). After these top ten sectors further table shows that defence industries, coir and mathematical, surveying and drawing instruments etc. are of not very much interest to the investors and showed no growth rate. We can conclude that service sector is found to be the most beneficent sector and at the same time one of the attractive sectors for FDI inflow.

TABLE NO. 2: STATEMENT ON SECTOR WISE FDI INFLOWS (FROM APRIL 2000 TO JANUARY 2012) Amount in Rs. Crores (US\$ in millions)

Rank	Sector	2009-10(April-March)	2010-11(April-March)	2011-12(April-Jan)	Cumulative inflows (April'00-Jan'12)	%age to total inflows(in terms of US\$)
1	Service Sector (financial & non-financial)	19,945 (4,176)	15,053 (3,296)	22,771 (4,836)	143,878 (31,971)	20%
2	Telecommunication	12,270 (2,539)	7,542 (1,665)	8,984 (1,992)	57,050 (12,547)	8%
3	Computer Software & Hardware	4,127 (872)	3,551 (780)	3,312 (698)	49,626 (11,107)	7%
4	Housing & Real Estate	14,027 (2,935)	5,600 (1,227)	2,750 (591)	49,025 (10,973)	7%
5	Construction Activities	13,469 (2,852)	4,979 (1,103)	10,859 (2,230)	49,440 (10,867)	7%
6	Drug & Pharmaceuticals	1,006 (213)	961 (209)	14,482 (3,208)	42,745 (9,170)	6%
7	Power	6,138 (1,272)	5,796 (1,272)	7,262 (1,569)	32,798 (7,215)	5%
8	Automobile Industry	5,893 (1,236)	5,864 (1,299)	2,916 (635)	29,354 (6,470)	4%
9	Metallurgical Industries	1,999 (420)	5,023 (1,098)	7,700 (1,655)	26,287 (5,909)	4%
10	Petroleum & Natural Gas	1,297 (266)	2,543 (556)	951 (202)	14,612 (3,339)	2%

Source:-[www.dipp.nic.in](http://www.dipp.nic.in)

**COUNTRY-WISE SHARE OF FDI IN INDIA**

An analysis of the origin of FDI inflows into India reveals that the new policy measure introduced broadened their sources. There were more than 100 countries which contributed to FDI inflow. The number of countries investing in India had increased since the liberalization of the Indian economy, a major share of the FDI inflow came from only a few countries ([www.rbi.org.in](http://www.rbi.org.in)).

From table 3, it is very clear that Mauritius remains the highest investor in India with a total FDI inflow of US\$ 63,146 (April '00-Jan '12), while the Singapore and the Japan are on the second and third position respectively with a total investment of US\$ 16,203 and US\$ 12,095 (April '00-Jan '12). On the other hand, investment from U.A.E, France, Italy and China remain very low. The fact due to which Mauritius is the highest investor in India is that the Double Taxation Avoidance Agreement (DTAA). Under this agreement the investors from Mauritius are protected from taxation in India. In reality, Americans are the biggest investors in our IT sector because most investor from Mauritius are Americans. Japan's major investment is in the automobile sector.

Thus it can be concluded that Mauritius, the Singapore, the Japan, the USA and the UK are the top five investor in India.



**TABLE 3: STATEMENT OF COUNTRY-WISE FDI INFLOWS (FROM APRIL 2000 TO JANUARY 2012)** Amount Rupees in crores (US\$ in millions)

Rank	Country	2009-10 (April- March)	2010-11 (April- March)	2011-12 (April- March)	Cumulative Inflows (April '00- Jan. '12)	%age to total inflows (in terms of US\$)
1	Mauritius	49,633 (10,376)	31,855 (6,987)	41,621 (8,919)	284,381 (63,146)	39%
2	Singapore	11,295 (2,379)	7,730 (1,705)	20,020 (4,307)	72,896 (16,203)	10%
3	Japan	5,670 (1,183)	7,063 (1,562)	13,007 (2,754)	56,769 (12,095)	8%
4	U.S.A	9,230 (1,943)	5,353 (1,170)	4,338 (913)	46,880 (10,362)	6%
5	U.K	3,094 (657)	3,434 (755)	12,484 (2,750)	41,916 (9,389)	6%
6	Netherlands	4,283 (899)	5,501 (1,213)	5,487 (1,167)	31,114 (6,867)	4%
7	Cyprus	7,728 (1,627)	4,171 (913)	6,378 (1,318)	28,326 (6,130)	4%
8	Germany	2,980 (626)	908 (200)	6,672 (1,465)	20,048 (4,464)	3%
9	France	1,437 (303)	3,349 (734)	2,180 (475)	12,447 (2,739)	2%
10	U.A.E	3,017 (629)	1,569 (341)	1,614 (330)	10,206 (2,220)	1%
<b>Total FDI inflows</b>		123,120 (25,834)	88,520 (19,427)	122,307 (26,192)	723,367 (160,094)	-

Source:-www.dipp.nic.in

**DETERMINANTS OF FDI INFLOW INTO THE STATE OF INDIA**

Looking at the inflow of FDI, we can observe a wide variation across the Indian states. Though, some of the Foreign Direct Investment is in strict adherence to geographical locations due to the availability of natural resources or the closeness to the market area; it is the states with metropolitan cities which are the major hub of Foreign Direct Investment in India. For example the state of Maharashtra has an advantage of two metropolitan cities i.e. Mumbai and Pune, if we go down in the south of India, the states of Andhra Pradesh, Karnataka and Tamil Nadu all have metro cities- Hyderabad, Bangalore and Chennai. If we compare the same with Gujarat it has a disadvantage of not having any metropolitan city. Due to this reason it attracts less FDI compared to the above states. Other reason can be a weak physical infrastructure.

Through the introduction of reforms and improvement in infrastructure facilities many states in India have been successful in getting FDI's. They are Gujarat, Maharashtra, Andhra Pradesh, Karnataka, Orissa, Madhya Pradesh, Punjab, Rajasthan and West Bengal. Still, states like Jharkhand and Bihar have not attracted enough FDI when compared with other states. The perception of governance in these states is a major hindrance in the way of attracting FDI. In a way these states are a mix and match of weak and careless governance which makes the investors not very enthusiastic in going forward with their investment in these states.

As per the available studies and researches there are many factors which determine the FDI inflow into a particular state. They are:

- Quality and adequate availability of infrastructure services
- Availability of skilled and cheap labor,
- Continuous and uninterrupted supply of power,
- Proportion of subsidies given by the government.

TABLE NO. 4: STATEMENT ON RBI'S REGIONAL OFFICES (WITH STATE COVERED) RECEIVED FDI EQUITY INFLOW<sup>1</sup> (FROM APRIL 2000 TO JANUARY 2012)

S. No.	RBI's Regional Office <sup>2</sup>	State covered	2011-12 (April-Jan.)	Cumulative inflows (April '00-Jan. '12)	%age to total inflows (in terms of US\$)
1	Mumbai	Maharashtra, Dadra & Nagar Haveli, Daman & Diu	39,758 (8,564)	241,228 (53,632)	34
2	New Delhi	Delhi, Part of UP and Haryana	33,089 (7,114)	146,778 (32,202)	20
3	Bangalore	Karnataka	5,776 (1,240)	42,434 (9,468)	6
4	Chennai	Tamil Nadu, Pondicherry	5,754 (1,231)	36,602 (8,082)	5
5	Ahmadabad	Gujarat	4,234 (902)	35,927 (8,058)	5
6	Hyderabad	Andhra Pradesh	3,697 (779)	30,259 (6,740)	4
7	Kolkata	West Bengal, Sikkim, Andaman & Nicobar islands	1,732 (377)	8,100 (1,864)	1
8	Chandigarh	Chandigarh, Punjab, Haryana, Himachal Pradesh	203 (44)	4,888 (1,068)	1
9	Bhopal	Madhya Pradesh, Chhattisgarh	527 (114)	3537 (768)	1
10	Panaji	Goa	123 (26)	3,449 (751)	1
11	Kochi	Kerala, Lakshadweep	1,731 (363)	3,389 (730)	1
12	Jaipur	Rajasthan	111 (23)	2,561 (544)	0.3
13	Kanpur	Uttar Pradesh, Uttaranchal	602 (133)	1,414 (310)	0.2
14	Bhubaneswar	Orissa	122 (27)	1,329 (288)	0.2
15	Guwahati	Assam, Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Tripura	5 (1)	321 (73)	0.1
16	Patna	Bihar, Jharkhand	58 (11)	85 (17)	0
17	Region not indicated <sup>3</sup>		24,786 (5,241)	160,533 (35,376)	20
Sub-total			122,307 (26,192)	722,834 (159,973)	100
18	RBI's-NRI scheme		0	533 (121)	-
Grand Total			122,307 (26,192)	723,367 (160,094)	-

<sup>1</sup> includes equity capital components only.

<sup>2</sup> The region wise FDI inflows are classified as per RBI's- Regional office received FDI inflows, furnished by RBI, Mumbai.

<sup>3</sup> Represents, FDI inflow through acquisition of existing shares by transfer from residents to non-residents. For this, RBI Regional wise information is not provided by RBI.

Source: www.dipp.nic.in

From the available data (Table 4) it appears that most of the FDI in India has gone to the richer states and a meager or nothing is left for the poorer states. But the scenario is changing for better and FDI is making its footing in every state of India as more and more initiatives are being taken by the respective state governments to attract maximum FDI.

Let us now examine the amount of FDI inflow as per the region made by the RBI into particular state of India. Table 4 indicates the amount of FDI inflow into the states. It is very much evident from the table that the state of Maharashtra is the highest receiver of FDI (Rs. 241,228 crores), followed by Delhi and Haryana and parts of the Uttar Pradesh (Rs. 146,778 crores). Bihar and north-eastern states are the lowest with an amount of Rs. 85 crores and Rs.321 crores respectively. Bangalore, Chennai and Ahmadabad stand on the third, fourth and fifth position with an amount of Rs. 42,434 crores, Rs. 36,602 crores and Rs. 35,927 crores respectively. There are different factors on which the FDI inflow makes its impact on different states.

Maharashtra has excellent physical, social and financial infrastructure and a relative abundance of entrepreneurs. It is the most industrialized, the second most urbanized and judged by the per capita income, the third richest state in India (www.planningcommission.nic.in). The impact of FDI on Maharashtra's economy has been very strong and impressive. FDI in this state has led to the introduction of new technologies in the industrial sector. Apart from this the sectors which have received a robust growth due to inflow of FDI are electronics hardware, automobiles and auto components, consumer durables, chemicals, information technology engineering and biotechnology.

## CONCLUSION

From the available data and information about the states of India it is clear that FDI has not only gone to richer states but has also gone to poorer states, though in less proportion. States like Maharashtra, Delhi and Bangalore have received sufficiently more. At the same time FDI has proved very much helpful in the growth of the poor states like Bihar and Jharkhand. It is because of FDI which has led to competition among the states, that the state government of Bihar has made efforts to attract FDI. The state government of Madhya Pradesh, Rajasthan, Orissa, Bihar, Jharkhand and north eastern states should alter the norms for FDI in the direction of giving a boost to sales, acquiring resources, improving infrastructure, increasing the supply in the market and making it less risk oriented. Keeping in view the global crisis which may hit investments badly, such policies should be adopted which aim at sustainable development of the state at the macro level and gives a more cohesive and pragmatic atmosphere for FDI.

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