

## SECTORAL TRENDS AND PATTERNS OF FDI IN INDIA

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### ABSTRACT

India's inward investment regime went through a series of changes since economic reforms were ushered in two decades back. The expectation of the policy makers was that an "investor friendly" regime will help India establish itself as a preferred destination of foreign investors. These expectations remained largely unfulfilled despite the consistent attempts by the policy makers to increase the attractiveness of India by further changes in policies that included opening up of individual sectors, raising the hitherto existing caps on foreign holding and improving investment procedures. But after 2005-06, official statistics started reporting steep increases in FDI inflows. This paper is an attempt to explain this divergence from the earlier trend. However, the country is far behind in comparison to some of the developing countries like China. However, traditional industrial sectors like food processing industries, textiles, etc. which were once important sectors attracting larger FDI, have given way to modern industrial sectors like electronics and electrical equipments, etc. In this paper analyze the FDI flows in the country and also is discussed the direct proportionate of the economic growth of the country.

**KEYWORDS:** FDI, Capital, Financial markets, reforms, Economic growth

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### INTRODUCTION

One of the most prominent and striking feature of today's globalised world is the exponential growth of FDI in both developed and developing countries. In the last two decades the pace of FDI flows are rising faster than almost all other indicators of economic activity worldwide. Developing countries, in particular, considered FDI as the safest type of external finance as it not only supplement domestic savings, foreign reserves but promotes growth even more through spillovers of technology, skills, increased innovative capacity, and domestic competition. Now a days, FDI has become an instrument of international economic integration.

Located in South Asia, India is the 7th largest and the 2<sup>nd</sup> most populated country in the world. India has long been known for the diversity of its culture, for the inclusiveness of its people and for the convergence of geography. Today, the world's largest democracy has come to the forefront as a global resource for industry in manufacturing and services. Its pool of technical skills, its base of an English – speaking populace with an increasing disposable income and its burgeoning market has all combined to enable India emerge as a viable partner to global industry. Recently, investment opportunities in India are at a peak.

## TRENDS AND PATTERNS OF FDI FLOW IN INDIA

Economic reforms taken by Indian government in 1991 makes the country as one of the prominent performer of global economies by placing the country as the 4<sup>th</sup> largest and the 2<sup>nd</sup> fastest growing economy in the world. India also ranks as the 11<sup>th</sup> largest economy in terms of industrial output and has the 3<sup>rd</sup> largest pool of scientific and technical manpower. Continued economic liberalization since 1991 and its overall direction remained the same over the years irrespective of the ruling party moved the economy towards a market – based system from a closed economy characterized by extensive regulation, protectionism, public ownership which leads to pervasive corruption and slow growth from 1950s until 1990s.

In fact, India's economy has been growing at a rate of more than 9% for three running years and has seen a decade of 7 plus per cent growth. The exports in 2008 were \$175.7 bn and imports were \$287.5 bn. India's export has been consistently rising, covering 81.3% of its imports in 2008, up from 66.2% in 1990-91. Since independence, India's BOP on its current account has been negative. Since 1996-97, its overall BOP has been positive, largely on account of increased FDI and deposits from Non – Resident Indians (NRIs), and commercial borrowings. The fiscal deficit has come down from 4.5 per cent in 2003-04 to 2.7 per cent in 2007-08 and revenue deficit from 3.6 per cent to 1.1 per cent in 2007-08.

As a result, India's foreign exchange reserves shot up 55 per cent in 2007-08 to close at US \$309.16 billion – an increase of nearly US \$110 billion from US \$199.18 billion at the end of 2006-07. Domestic saving ratio to GDP shot up from 29.8% in 2004-05 to 37.7% in 2007-08. For the first time India's GDP crossed one trillion dollars mark in 2007. As a consequence of policy measures (taken way back in 1991) FDI in India has increased manifold since 1991 irrespective of the ruling party over the years, as there is a growing consensus and commitments among political parties to follow liberal foreign investment policy that invite steady flow of FDI in India so that sustained economic growth can be achieved. Further, in order to study the impact of economic reforms and FDI policy on the magnitude of FDI inflows, quantitative information is needed on broad dimensions of FDI and its distribution across sectors and regions.

The IT industry is one of the booming sectors in India. At present India is the leading country pertaining to the IT industry in the Asia -Pacific region. With more international companies entering the industry, the Foreign Direct Investments in India has been phenomenon over the year. The rapid development of the telecommunication sector was due to the FDI inflows in form of international players entering the market and transfer of advanced technologies. The telecom industry is one of the fastest growing industries in India. With a growth rate of 45%, Indian telecom industry has the highest growth rate in the world.

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### Top 10 Sectors Attracting Highest FDI Equity Inflows:

| (Amount Rs. in Crore/US\$ in Million)                                      |             |         |         |         |         |         |         |          |   |
|--|-------------|---------|---------|---------|---------|---------|---------|----------|---|
| Sector   | April-March |         |         |         |         |         |         |          | Cumulative Inflows (April 2000 to September 2012) |
|  | 2005-06     | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13* |   |
| Services Sector (Financial & Non-Financial)                                | 2399        | 21047   | 26589   | 28516   | 19945   | 15053   | 24656   | 16643    | 162416  |
|  | (543)       | (4664)  | (6615)  | (6138)  | (4176)  | (3296)  | -(5216) | (3043)   | (35395)   |
| Construction development: Township, Housing, Built-UP Infrastructure#      | -           | -       | -       | -       | -       | 5600    | 15236   | 3499     | 97262   |
|  | -           | -       | -       | -       | -       | (1227)  | (3141)  | (644)    | (21383)   |
| Telecommunications (Radio Paging Cellular Mobile Basic Telephone Services) | 2776        | (2155)  | 5103    | 11727   | 12270   | 7542    | 9012    | 236      | 57314   |
|  | (624)       | (478)   | (1261)  | (2558)  | (2539)  | (1665)  | (1997)  | (43)     | (12595)   |
| Computer Software & Hardware   | 6172        | 11786   | 5623    | 7329    | 4127    | 3551    | 3804    | 1322     | 51440   |
|  | (1375)      | (2614)  | (1410)  | (1677)  | (872)   | (780)   | (796)   | (241)    | (11446)   |
| Drugs and Pharmaceuticals  | -           | -       | -       | -       | 1006    | 961     | 14605   | 2648     | 45516   |
|  | -           | -       | -       | -       | (213)   | (209)   | (3232)  | (501)    | (9696)  |
| Chemicals (Other Than Fertilizers)   | 1731        | 930     | 920     | 3427    | 1726    | 10612   | 18422   | 819      | 39719   |
|  | (390)       | (205)   | (229)   | (749)   | (366)   | (2354)  | (4041)  | (149)    | (8738)  |
| Power  | 386         | 713     | 3875    | 4382    | 6138    | 5796    | 7678    | 1735     | 34949   |
|  | (87)        | (157)   | (967)   | (985)   | (1272)  | (1272)  | (1652)  | (317)    | (7616)  |
| Automobile Industry  | 630         | 1254    | 2697    | 5212    | 5893    | 5864    | 4347    | 3514     | 34300   |
|  | (143)       | (276)   | (675)   | (1152)  | (1236)  | (1299)  | (923)   | (635)    | (7392)  |
| Metallurgical Industries   | 6540        | 7866    | 4686    | 4157    | 1999    | 5023    | 8348    | 3699     | 30635   |
|  | (147)       | (173)   | (1177)  | (961)   | (420)   | (1098)  | (1786)  | (685)    | (6726)  |
| Hotel and Turism   | 64          | 401     | 5729    | 1931    | 1297    | 1405    | 4754    | 16442    | 31926   |
|  | (14)        | (89)    | (1427)  | (412)   | (266)   | (308)   | (993)   | (3011)   | (6383)  |
| Construction Activities (Including Roads & Highways)                       | 667         | 4424    | 6989    | 8792    | 13469   | 4979    | 13672   | 951\$    | 53204\$   |
|  | (151)       | (985)   | (1743)  | (2028)  | (2852)  | (1103)  | (2796)  | (181)\$  | (11613)\$   |
| Housing & Real Estate  | 171         | 2121    | 8749    | 12621   | 14027   | 5600    | 3443    | 705\$    | 50422\$   |
|  | (38)        | (467)   | (2179)  | (2801)  | (2935)  | (1227)  | (731)   | (132)\$  | (11245)\$   |

The FDI in Automobile Industry has experienced huge growth in the past few years. The increase in the demand for cars and other vehicles is powered by the increase in the levels of disposable income in India. The options have increased with quality products from foreign car manufacturers. The introduction of tailor made finance schemes, easy repayment schemes has also helped the growth of the automobile sector. For the past few years the Indian Pharmaceutical Industry is performing very well. The varied functions such as contract research and manufacturing, clinical research, research and development pertaining to vaccines are the strengths of the Pharma Industry in India. Multinational pharmaceutical corporations outsource these activities and help the growth of the sector. The Indian Pharmaceutical Industry has been experiencing a vast inflow of FDI.

The FDI inflow in the Cement Industry in India has increased with some of the Indian cement giants merging with major cement manufacturers in the world such as Holcim, Heidelberg, Italcementi, Lafarge, etc. The FDI in Semiconductor sector in India were crucial for the development of the IT and the ITES sector in India. Electronic hardware is the major component of several industries such as information technology, telecommunication, automobiles, electronic appliances and special medical equipments.

### **IMPORTANCE OF THE STUDY**

It is apparent from the above discussion that FDI is a predominant and vital factor in influencing the contemporary process of global economic development. The study attempts to analyze the important dimensions of FDI in India. The study works out the trends and patterns, main determinants and investment flows to India. The study also examines the role of FDI on economic growth in India for the period 1991-2008. The period under study is important for a variety of reasons. First of all, it was during July 1991 India opened its doors to private sector and liberalized its economy. Secondly, the experiences of South-East Asian countries by liberalizing their economies in 1980s became stars of economic growth and development in early 1990s. Thirdly, India's experience with its first generation economic reforms and the country's economic growth performance were considered safe havens for FDI which led to second generation of economic reforms in India in first decade of this century. Fourthly, there is a considerable change in the attitude of both the developing and developed countries towards FDI. They both consider FDI as the most suitable form of external finance. Fifthly, increase in competition for FDI inflows particularly among the developing nations.

### **OBJECTIVES OF THE STUDY:**

The main objective of the study is to analyze the FDI inflows in India with special reference to Sector –wise inflows.

The other objectives are:

- To analyze the FDI flows as to identify country wise approvals of FDI inflows to India.
- To explore the Sector wise distribution of FDI inflows in order to point out the dominating sector, that has attracted the major share.
- To rank the sectors based upon highest FDI inflows

## **STATEMENT OF THE PROBLEM**

The present study tries to assess the determinants and impact of FDI in India at the macro – level. Thus, the present study is an endeavor to discuss the trends and patterns of FDI, its determinants and its impact of FDI on Indian economy

## **ANALYTICAL TOOLS**

In order to analyse the collected data the following mathematical tools were used. To work out the trend analysis the following formula is used:

Trend Analysis i.e.  $\hat{y} = a + b x$

Where  $\hat{y}$  = predicted value of the dependent variable a = y – axis intercept,

b = slope of the regression line (or the rate of change in y for a given change in x),

x = independent variable (which is *time* in this case).

## **Emerging Issues in Flow of Foreign Direct Investment across Different Sectors**

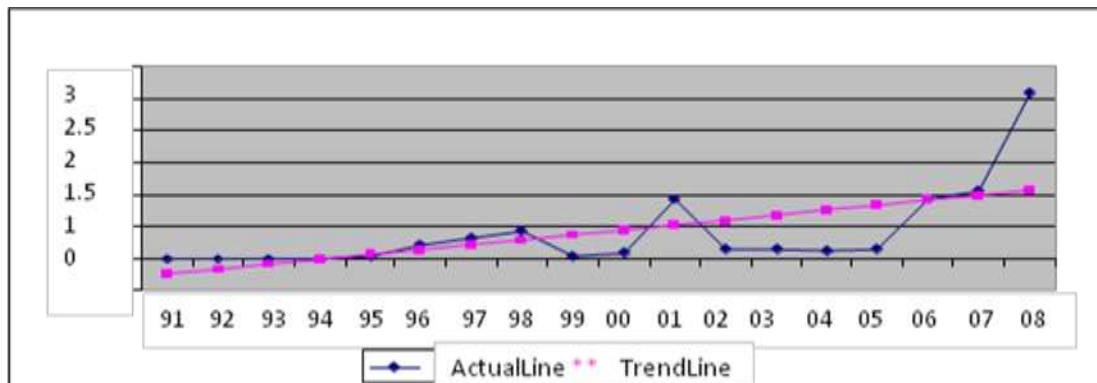
India attracted FDI equity inflows of US\$ 2,214 million in April 2010. The cumulative amount of FDI equity inflows from August 1991 to April 2010 stood at US\$ 134,642 million, according to the data released by the Department of Industrial Policy and Promotion (DIPP). The services sector comprising financial and nonfinancial services attracted 21 per cent of the total FDI equity inflow into India, with FDI worth US\$ 4.4 billion during April-March 2009-10, while construction activities including roadways and highways attracted second largest amount of FDI worth US\$ 2.9 billion during the same period. Housing and real estate was the third highest sector attracting FDI worth US\$ 2.8 billion followed by telecommunications, which garnered US\$ 2.5 billion during the financial year 2009-10. The automobile industry received FDI worth US\$ 1.2 billion while power attracted FDI worth US\$ 1.4 billion, during April-March 2009-10, according to data released by DIPP. In April 2010, the telecommunication sector attracted the highest amount of FDI worth US\$ 430 million, followed by services sector at US\$ 355 million and computer hardware and software at US\$ 172 million, according to data released by DIPP. Data released by other International organizations reflect the improved condition of global FDI after 2008. The International Monetary Fund reported that net inflows in emerging and developing economies were up to \$294.1 billion in 2010, compared to \$274.8 billion in 2009.

## **Sector-Wise FDI Inflows From April 2000 To September 2012.**

### **Services Sector**

Services sector is one of the most important sectors contributing to the sustained economic growth and development by contributing 55% to GDP. There is a continuously increasing trend of FDI inflows in services sector with a steep rise in the inflows from 2005 onwards). Service sector received an investment of US\$ 22 bn which is 28% of the total FDI inflows from 1991-2012.

### Trends in Services Sector

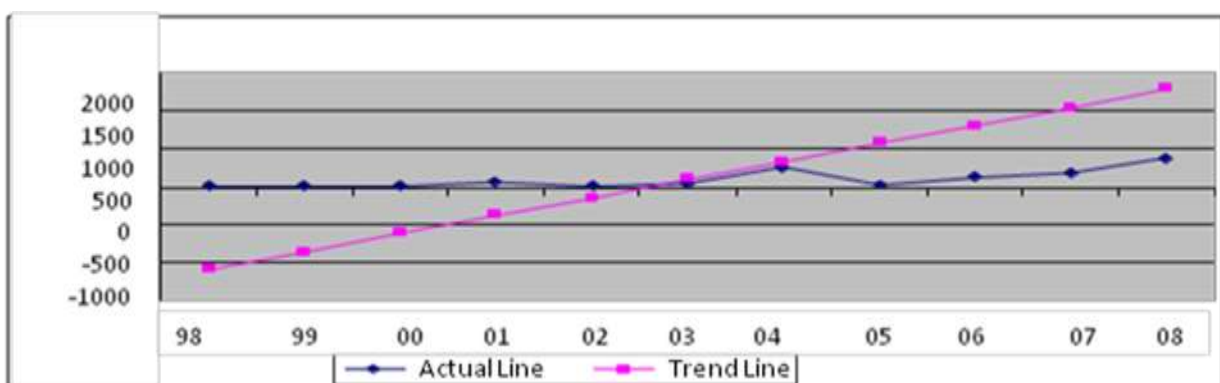


Mauritius top the chart by investing 42.52% in services sector followed by UK (14.66%), Singapore (11.18%). In India, FDI inflows in services sector are heavily concentrated around two major cities- Mumbai (33.77%) and Delhi (16.14%). Services sector ranks 3<sup>rd</sup> in the list of sectors in terms of cumulative FDI approved from August 1991 to Dec 2008.

### Consultancy Sector

Consultancy Sector received US\$ 1.1 bn which is 1.14% of total inflows received from 2000-2008 through FIPB/SIA route, acquisition of existing shares and RBI's automatic route. Management services received an investment of US\$ 737.6 million, marketing US\$138.65 million and Design and Engineering services constitute an investment of US\$ 110.43.

### Trends in Consultancy Sector

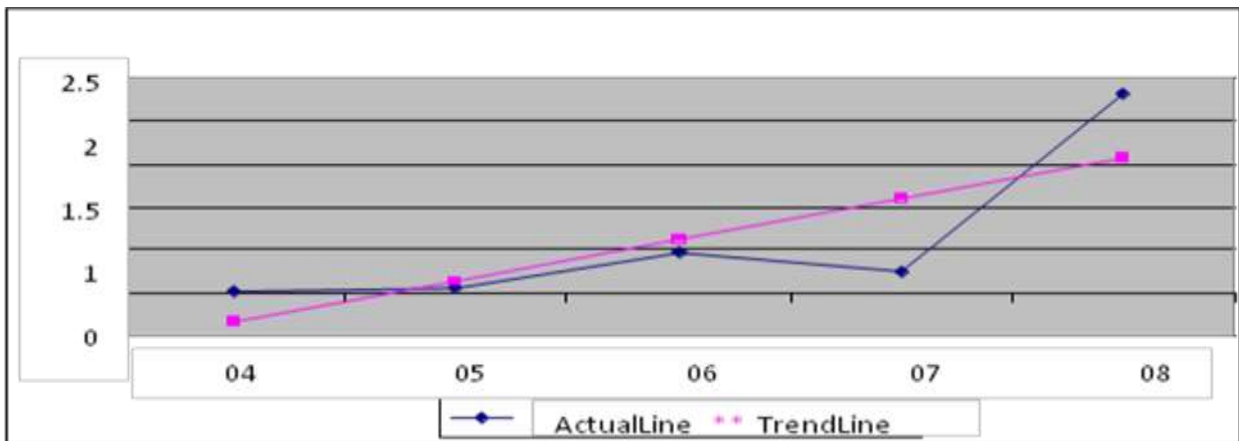


Major share of investment in consultancy services comes from Mauritius with 37.2%, USA (25.47%) and Netherlands 6.63% respectively. Further, in India Mumbai (38.76%) and New Delhi (13.01%) received major percentages of FDI inflow for consultancy sector from 2000-2008. FDI inflows in consultancy sector registered a continuous increasing trend of FDI inflows from 2005 onwards.

### Education Sector

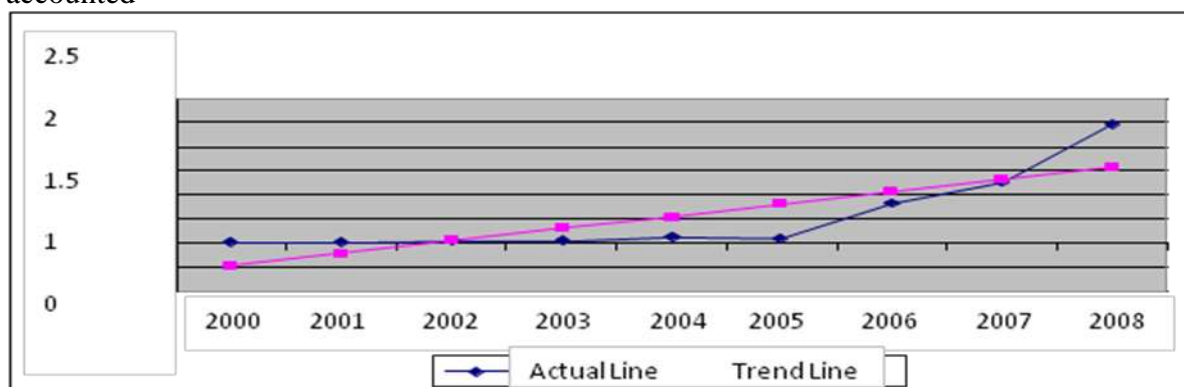
In India, Bangalore received 80.14% of total FDI inflow followed by Delhi (6.45%), Mumbai (5.58%) respectively. As far as technology transfer and financial collaborations are concerned, total number of 2 technical and 112 financial collaboration are approved for education sector.

### Trends in Education Sector



### Construction activities sector

Construction activities Sector includes construction development projects viz. housing, commercial premises, resorts, educational institutions, recreational facilities, city and regional level infrastructure, township. In India Delhi, Mumbai, and Hyderabad receives maximum amount (viz. US\$ 1245.61, 1000.5, and 943.22 bn) of investment. The amount of FDI in construction activities during Jan 2000 to Dec. 2008 is US\$ 4.9 bn which is 6.15% of the total inflows received through FIPB/SIA route, acquisition of existing shares and RBI's automatic route. The construction activities sector shows a steep rise in FDI inflows from 2005 onwards Major investment in construction activities is received from Mauritius which is accounted



nearly 58.61% of total FDI inflows during 2000-2008

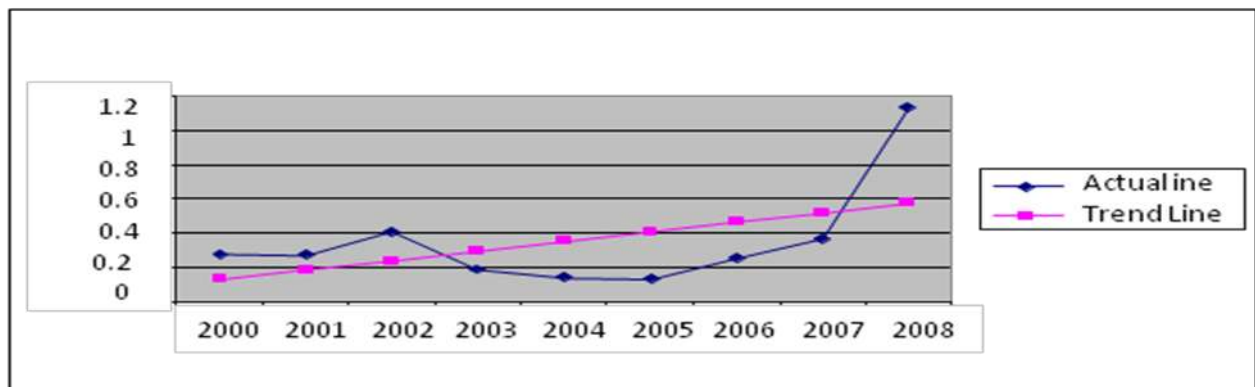
## Trends in Construction Activities Sector

Source: compiled and computed from the various issues SIA Bulletin, Ministry of Commerce, GOI

### Automobile Industry

Automobile Industry Sector comprises Passenger cars, auto ancillaries etc. FDI inflows in the automobile Industry sector, during Jan 2000 to Dec. 2008 is US\$ 3.2 bn which is 4.09% of the total inflows received through FIPB/SIA route, acquisition of existing shares and RBI' automatic route. The trends in automobile sector show that there is a continuous increase of investment in this sector after 2005 onwards (Chart- 3.20). Major investment came from Japan (27.59%), Italy (14.66%), USA (13.88%) followed by Mauritius(7.77%) and Netherlands (6.91%). In India Mumbai, New Delhi and Ahmedabad received major chunks of investment i.e. 36.98%, 26.63% and 9.47%). The total numbers of approvals for automobile industry have been of the order of 1611 with an equity participation of US\$ 6.1 bn, which is 7.01% of the total investment. Automobile industry sector ranks 5<sup>th</sup> in the list of sectors in terms of cumulative FDI approved from August 1991 to Dec 2008. Out of 1611 numbers of foreign collaborations approved 734 are technical and 877 are financial in nature.

### Trends in Automobile Sector



Source: compiled and computed from the various issues SIA Bulletin, Ministry of Commerce, GOI

Major Indian companies which received highest percentage of FDI inflows in automobile industry are Escorts Yamaha Motor Ltd, Yamaha Motors India Pvt. Ltd, Punjab Tractors Ltd., Yamaha Motor Escorts Ltd, Endurance Technologies P. Ltd, General Motors India Ltd, and Fiat India Automobile P. Ltd.

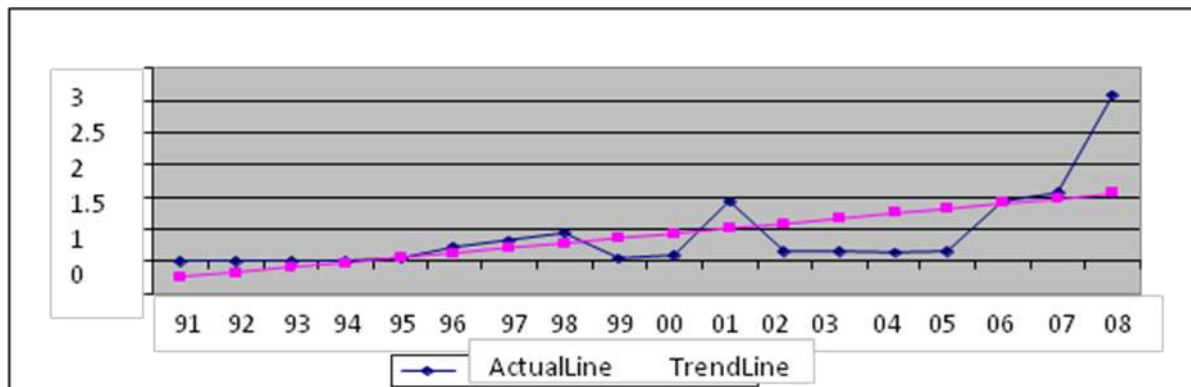
### Telecommunications Sector

Telecommunications Sector comprises Telecommunications, Cellular Mobile/ Basic Telephone Services etc. India received cumulative FDI inflows of US\$ 100.4 bn during 1991-2008. Out of this, Telecommunications Sector received an inflow of US\$ 8.2 bn, which is 8.4% of the total FDI inflows during August 1991 to December 2008. There has been a steady flow of FDI in telecommunications from 1991 to 2005, but there is an exponential rise in FDI inflows after 2005. Telecommunication sector ranks 2<sup>nd</sup> in the



list of sectors in terms of cumulative FDI approved from August 1991 to Dec 2008.

### Trends in Telecommunications Sector



### Findings

- **Services sector:** In recent years Services sector puts the economy on a proper gliding path by contributing 55 percent to GDP. There is a continuously increasing trend of FDI inflows in services sector with a steep rise in the inflows from 2005 onwards. Services sector received an investment of 19.2 bn from 1991 to 2008. Among the subsectors of services sector, financial services attract 10.2 percent of total FDI inflows followed by banking services (2.22 percent), insurance (1.6 percent) and non- financial services (1.62 percent). In India, Mumbai (with 33.77 percent) and Delhi (with 16 percent) are the two most attractive locations which receives heavy investment in services sector. It is found that among the major investing countries in India, Mauritius tops the chart by investing 42.5 percent in services sector followed by U.K (14.66 percent) and Singapore (11.18 percent). During 1991 to Dec 2008 services sector received 1626 numbers of foreign collaborations, out of which 77 are technical and 1549 are financial in nature.
- **Consultancy Sector:** Consultancy sector received 1.14% of total FDI inflows during 2000 to 2008. Among the subsectors of consultancy sector management services received highest amount of FDI inflows apart from marketing and design and engineering services. Mauritius invest heavily (37%) in the consultancy sector. In India, Mumbai received heavy investment in the consultancy sector. Consultancy sector shows a continuous increasing trend of FDI inflows from 2005 onwards.
- **Education sector:** Education sector attracts foreign investors in the present decade and received a whopping 308.28 million of FDI inflows during 2004-2008. It registered a steep rise in FDI inflows from 2005. Mauritius remains top on the chart of investing countries investing in education sector. Bangalore received highest percentage of 80.14% of FDI inflows in India.
- **Construction Activities Sector:** Construction Activities sector received US\$ 4.9 bn of the total FDI inflows. Mauritius is the major investment country in India. New Delhi and Mumbai are the most preferred locations for construction activities in India.
- **Automobile Sector:** Earlier Automobile Industry was the part of transportation sector but it became an independent sector in 2000. During Jan 2000 to dec. 2008 this industry received an investment of US\$ 3.2 bn which is 4.09 % of the total FDI inflows

in the country. Japan (27.59%), Italy (14.66%) and USA (13.88%) are the prominent investors in this sector. In India Mumbai and New Delhi with 36.98 % and 26.63 percent of investment becomes favourite destination for this sector. Maximum numbers of technical collaborations in this sector are with Japan.

## CONCLUSION

FDI has helped the Indian economy grow and the government continues to encourage more investments of this sort. Attracting foreign direct investment has become an integral part of the economic development strategies for India. FDI has been a booming factor that has bolstered the economic life of India. Over the years FDI flow is increasing. However India has tremendous potential for absorbing greater flow of FDI in the coming years.

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