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FOREIGN DIRECT INVESTMENT IN INDIA: A TREND ANALYSIS

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Abstract
Shyness of capital market of developing countries makes them dependent on FDI (Foreign Direct Investment). Capital formation rate of developing nations stands always low in comparison to developed countries. In the developing nation need of capital is more than the availability in order to fulfill the gap between capital available and need FDI took a central place. The role of FDI as a key of development engine has increased very significantly in last two decades. More than half of the total capital inflow developing countries are receiving in the form of FDI. Across the world all most developing countries are trying to attract FDI through their liberal policies. Restrictions which were earlier in existence now are being removed. This paper examines the trend of FDI in last many years and forecast its trend.

Key Words: FDI, Retail, Inflow, Outflow

Introduction

In every developing country, the economic development requires investments in certain projects relating to infrastructure development, basic industries, etc, which are long gestation projects, low income yielding, but accelerate economic development. So the government has to initiate development activities for which foreign capital is essential. Once the economic engine is activated, in due course, the economic developments begin to take place.

The concept of FDI: FDI is a direct investment into production or business in a country by an individual or company in another country, either by buying a company in the target country or by expanding operations of an existing business in that country.

FDI, in its classic definition, is defined as a company from one country making a physical investment into building a factory in another country.

FDI occurs when an investor based in one country (the home country) acquires an asset in another country (the host country) with the interest to manage the asset .The company investing in another country also transfers assets such as technology and also deputes specialists in management & marketing .Further, the investing company also seeks the power to exercise control over decision making in a foreign enterprise-the extent of which has to vary according to its equity participation.

FDI connotes direct investment in the equity shares, debentures or bonds of Indian companies by the foreign investors.
Foreign Direct Investor.

A foreign direct investor is an entity (an institutional unit) resident in one economy that has acquired, either directly or indirectly, at least 10% of the voting power of a corporation (enterprise), or equivalent for an unincorporated enterprise, resident in another economy. A direct investor could be classified to any sector of the economy and could be any of the following:

- an individual;
- a group of related individuals;
- an incorporated or unincorporated enterprise;
- a public or private enterprise;
- a group of related enterprises;
- a government body;
- an estate, trust or other societal organization; or
- any combination of the above

In the case where two enterprises each own 10% or more of each others voting power, each is a direct investor in the other

Literature Review: Large numbers of studies are available on the subject matter some of them are as under: Deshmukh, Ramrao N., (2015) He observed that in the last two decades there has seen an extensive inflow of foreign direct investment into developing countries. More and more developing countries are competing with each other to attract this investment as it has been proved as an important source of capital. Restrictions which were earlier in place on these investments are now

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being removed as the importance of FDI is being realized. This paper studies the trends in FDI in India over a period of five years. An attempt is also made to study the changes in distribution of FDI in various sectors.

Vyas, Abhishek, Vijaykumar., (2015) in his study he analyse the trends of FDI and gap between approval and actual flow of FDI. An effort on sector wise analysis has been made under this paper. He concluded that Mauritius emerged as the most dominant source of FDI contributing. It is because the India has Double Taxation Avoidance Agreement (DTAA) with Mauritius and most of the foreign countries like to invest in service sector.

Chitrao, Pradnya., (2014) his study evaluates the potential of FDI in management education. In his study he examined various dimensions of FDI and it's significant in this sector. He found that large numbers of students are going abroad for management education because they prefer top 100 B-schools for their study.

Mottaleb Khondoker Abdul, Kalirajan Kaliappa (2013), strived to identify the factors that determine FDI inflow to the developing countries. Based on a comparative discussion focusing on why some countries are successful in attracting FDI while others not, the paper demonstrates that countries with larger GDP and high GDP growth rate, higher proportion of international trade and with more business friendly environment are more successful in attracting FDI.

Renuka R. ,Ganesan M. et al (2013), revealed in their paper that only those foreign retailers who first invest in the back-end supply chain and infrastructure would be allowed to set up multi-brand retail outlets in the country.

Anitha R. (2012) has examined the various set of factors which influence the flow of FDI identifying the causes of low inflow & suggestive measures to increase the flow of FDI in India with that of other developing nation in the world.

Mittal, Parul, Aggarwal, Sandeep (2012), analyzed the inflows & outflows of FDI since the post liberalization era. The purpose of this paper is to provide an examination of FDI in various sectors. The paper aims to present an unique understanding of FDI in the context of liberalization and the prevailing political environment.

Singh, Jasbir et al (2012), presented study which is based on the objective like (a) to know the requirement of amount of foreign investment by India ,for its economic development and,(b) to analyze the trend and role of FDI & FII's in improving the quality and availability of goods has been beyond doubt. This paper recommends that we should welcome the inflow of foreign investment because it enable us to achieve cherished goals like making the favorable the BOP, rapid economic development, removal of poverty, and internal personal disparity in the development and also it is very much convenient andavorable for Indian economy.

Goel Shashank, Kumar K.Phani et al (2012), analyzed the FDI flows in the country and to discuss the direct proportionate of the economic growth of the country.

Sharma, Kumar Vinod., (2011), attempted to analyze the significance of the FDI inflows in various Indian sectors from 2005-2010.The sector-wise analysis of FDI inflows in India reveals that maximum FDI has taken place in the service sector including the telecommunication, information technology, travel & many others. The service sector is followed by manufacturing sector in terms of FDI.

Hooda, Sapna (2011), reviewed the trends and patterns of flow of FDI, and to assess the determinants of FDI inflows.Read, Robert (2007), represented one of the first attempts to analyze the determinants of the inflows of FDI to SIDS. The analysis is undertaken in the context of the existing literature on the determinants of FDI inflows, incorporating insights drawn from recent research on determinants of growth in small states.

Sethi D, Guisinger Se, Phelan Se, et al (2003), seek to provide a rationale for changing trends in the flow and determinants of FDI as a result of macro-economic and firm strategy considerations. Several factors has been identified that has an impact on such trends. Results show that US MNE's are making increasing investments into Asia to exploit low wage levels and to secure entry into new markets.

Objectives : To carry out study on the trends & patterns of inflow of FDI in India.

- ❖ To evaluate the impact of FDI on GDP.
- ❖ To examine the regional disparities of FDI inflow in India.

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Research Methodology

Universe size: All the countries of the world.

Area of Investigation: India

Sampling Method: For the purpose of research study, the method of Convenience sampling will be undertaken and data will be analyzed through time-series analysis method like least square method.

Tool for Data Collection: The entire study will be based on the secondary data and sources will be internet, available reports, RBI magazines, etc.

Tools for Data Analysis

1. The analysis and forecasting of trends & patterns of inflow of FDI in India, has been done through LEAST SQUARE METHOD and the growth rate till 2020 ten years has been calculated.
2. The impact of FDI on GDP is evaluated by calculating the correlation.
3. Comparative analysis of different regions is made by descriptive statistics (average and standard deviation).

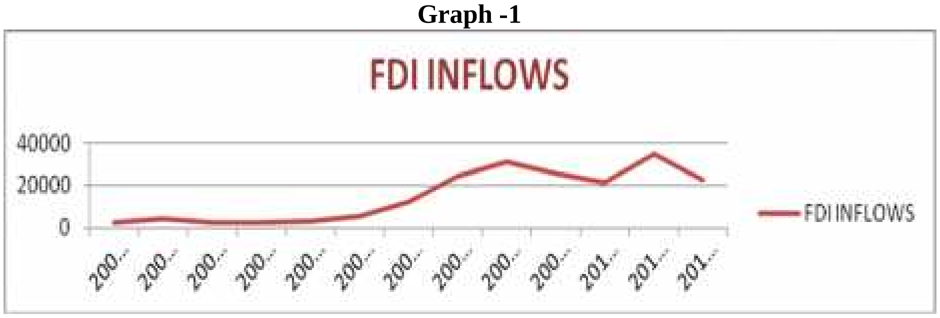
Type of Research: Analytical research

Table-1

FDI INFLOWS IN INDIA FROM 2001-2012		
S.NO.	YEARS	AMOUNT OF FDI INFOWS (IN $)
1	2000-01	2463
2	2001-02	4065
3	2002-03	2705
4	2003-04	2188
5	2004-05	3219
6	2005-06	5540
7	2006-07	12492
8	2007-08	24575
9	2008-09	31396
10	2009-10	25834
11	2010-11	21383
12	2011-12	35181
13	2012-13	22423

Source: UNCTAD annual Report

Graph -1



Trend for FDI is being calculated by using LEAST SQUARE METHOD as shown below:-

a=∑Y/N, b=∑XY/∑X^2

In the last 13 years, It has been found that India is attracting FDI for a long period of time. The FDI inflows in India were 2463 US$ in 2000-01 but it has been found fluctuating till the year 2012-13.

Table-2

FDI TREND	
YEAR	Yc = a+ bx
2000-01	-1480
2001-02	1247
2002-03	3947
2003-04	6701
2004-05	9428
2005-06	12155

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2006-07	14882
2007-08	17609
2008-09	20336
2009-10	23063
2010-11	25790
2011-12	28517
2012-13	31244

Source: UNCTAD Annual Report

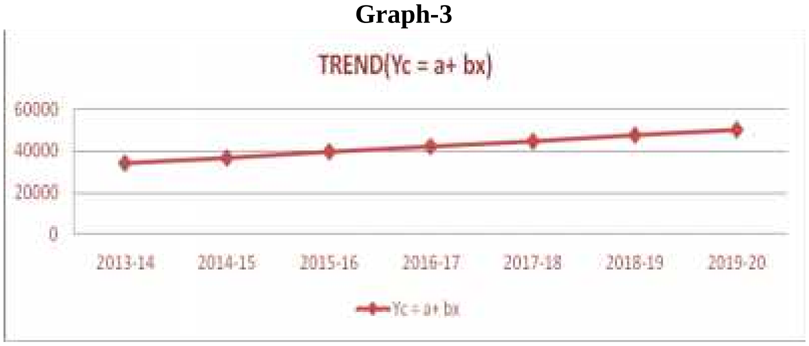
Graph 2

Trend forecasting is being done with the same method of LEAST SQUARE.

Table-3

YEAR	Yc = a+ bx
2013-14	33971
2014-15	36698
2015-16	39425
2016-17	42152
2017-18	44879
2018-19	47606
2019-20	50333

Graph-3



But after calculating the trend of FDI through Least Square Method, it has been found that there is a positive growth in FDI in India in the last 13 years. The graphical presentation shows an upward straight line representing an increasing trend of FDI from the year 2013-14 to 2019-20.

HENCE, FDI will continue to inch upwards as the trend has been forecasted for the upcoming years till 2019-20.

Table-4

FDI Equity Inflows To Indian States						
Year S → States ↓	2008-09	2009-10	2010-11	2011-12	Arithmetic Mean	Standard Deviation

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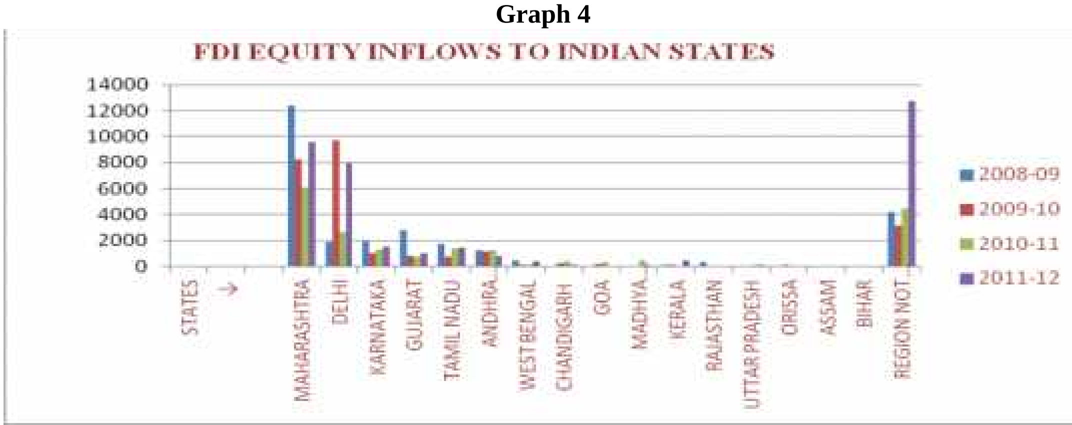
	Us$ Million					
Maharashtra	12,431	8,249	6,097	9,553	9082.5	1654.58
Delhi	1,868	9,695	2,677	7,983	5555.75	3350.81
Karnataka	2,026	1,029	1,332	1,533	1480	362.71
Gujarat	2,826	807	724	1,001	1339.5	864.10
Tamil Nadu	1,724	774	1,352	1,422	1318	343.78
Andhra Pradesh	1,238	1,203	1,262	848	1137.75	168.60
West Bengal	489	115	95	394	273.25	171.72
Chandigarh	0	224	416	130	192.5	151.58
Goa	29	169	302	38	134.5	111.46
Madhya Pradesh	44	54	451	123	168	166.20
Kerala	82	128	37	471	179.5	171.35
Rajasthan	343	31	51	33	114.5	132.15
Uttar Pradesh	0	48	112	104	66	45.39
Orissa	9	149	15	28	50.25	57.425
Assam	42	11	8	1	15.5	15.72
Bihar	0	0	5	24	7.25	9.88
Region Not Indicated	4,181	3,148	4,491	12,782	6150.50	3860.85

Graph 4



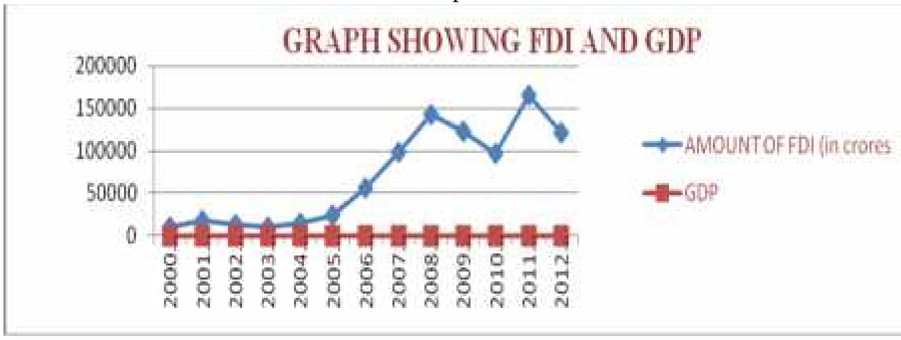
FDI in different states in India have increased steadily since a long period of time. From the table 1.3, it is being found that the state of Maharashtra, stood as the most dominated destination of FDI followed by Karnataka, Gujarat, Delhi and Tamil Nadu are among the leading states that have attracted maximum FDI. The reason for this concentration of FDI could be the FDI-friendly image of the respective state, level of infrastructural developments, as well as investments. Other reason may be the emergence of IT industry in most of the dominating states.

Table-5

Table showing FDI and GDP		
YEAR	AMOUNT OF FDI (in crores)	GDP
2000-01	10733	2342774
2001-02	18654	2472052
2002-03	12871	2570690
2003-04	10064	2777813
2004-05	14653	2971464
2005-06	24584	3253073
2006-07	56390	3564364
2007-08	98642	3896636
2008-09	142829	4158676
2009-10	123120	4516071
2010-11	97320	4937006

2011-12	165146	5243582
2012-13	121907	5503476

Graph-5



CORRELATION(r) = 0.905216

Keeping other factors constant, the value for correlation has been calculated as 0.905216.

From the calculated value for correlation, it is being found that both the variables are HIGHLY AND POSITIVELY CORRELATED.

Findings, Recommendations and Conclusion: After analyzing data collected following important findings have been developed:

- India is attracting FDI for along period of time but it is found fluctuating.
- There is a positive growth in FDI in last 13 years, as per trends calculation.
- FDI will continue to inch upwards as the trend has been forecasted for the upcoming years till 2019-20.
- Maharashtra is most dominated destination of FDI followed by Karnataka, Gujarat, Delhi and Tamil Nadu.
- The value of correlation is 0.905216 for the two variables, i.e, FDI and GDP. So, these variables are HIGHLY AND POSITIVELY CORRELATED.

Recommendation

- A conducive business environment is required to attract FDI flow by providing better infrastructure, hassle-free government procedures and most importantly, a degree of autonomy and freedom in various decision making processes.
- It is recommended that current lock in restrictions should be removed so as to permit FDI in different countries.
- It is essential that India adopts and implements the concepts like export processing zones, free trade zones, and special economic zones which provide free market environment to achieve export promotion objective.
- The government should identify highly competitive sectors of economy to ascertain export growth areas in the continuously evolving dynamic world.

Conclusion

An increase in FDI may be associated with improved economic growth due to the influx of capital and increased tax revenues for the host country. Host countries often try to channel FDI investment into new infrastructure and other projects to boost development. Greater competition from new companies can lead to productivity gains and greater efficiency in the host country and it has been suggested that the application of a foreign entity’s policies to a domestic subsidiary may improve corporate governance standards. Further more, foreign investment can result in the transfer of soft skills through training and job creation, the availability of more advanced technology for the domestic market and access to research and development resources. Following may be listed as some reasons why India is the right place to invest.

- One of the largest manufacturing sectors in the world, spanning almost all the areas of manufacturing activities..
- Skilled manpower and professional managers are available at competitive cost.
- Rich base of mineral and agricultural resource.
- Long history of market economy infrastructure

For strengthening competitiveness, it is essential that FDI companies create brand image for the goods produced in India by improving the quality of the goods as well as the quality of labeling and packaging .These measures would not only improve the quality if Indian products but also reduce the outflow of foreign exchange from the country. So the development of proper transport facilities and modernization of ports is paramount.

There has been substantial improvement in the inflows of FDI in India. However, keeping in view the parameters of the global FDI positions and need of India in terms of further FDI, there are certain aspects need to be considered for sustaining the flow of FDI to India. The current institutional system does not provide a mechanism for aggressive marketing of India as an FDI location. The Indian investment center, due to lack of oversees offices, is not in a position to promote India abroad.

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