

A study on FDI inflow in India

Sonawane Shantaram Tarachand

Research Scholar Sri Satya Sai University of Technology & Medical Sciences, Sehore (M.P.), India

Abstract

As far as the development is going on in the agriculture field, India has made the tremendous report last 60 years by producing per hectare agriculture products. Green revolution in India, improvements in road and power generation is in infrastructure city. Although it is observed that country has made remarkable development in various aspects, still India's crop yield is 30%-60% for those crops which can be easily imported from other developed farms from developing countries. Along with this there are certain other problems for Indian farmers. They have poor infrastructure and unorganized retailing system which results in highest food losses in the world. It also will explain how to trade at foreign level and discuss the strategies and maintain a policy.

Keywords: Foreign Direct Investment, FDI Inflow, Indian Economy, Policy, Agriculture

Introduction

India also received large FDI inflows in line with its robust domestic economic performance when the tripling of the FDI flows to EMEs during the pre-crisis period of the 2000s. The attractiveness of India as a preferred investment destination could be ascertained from the large increase in FDI inflows to India, which rose from around US\$ 6 billion in 2001-02 to almost US\$ 38 billion in 2008-09. Since the early 1990s liberalisation of the economy is significantly affected by the significant increase in FDI inflows to India. It is also affected by gradual opening up of the capital account. FDI was gradually allowed in almost all sectors subject to compliance of sector specific rules and regulations, because part of the capital account liberalisation, except a few on grounds of strategic importance.

In the recent past, various economists, policymakers, academicians and corporate researchers suggested that India's regulatory policies in terms of procedural delays, complex rules and regulations related to land acquisition, legal requirements and environmental obligations might have played a role in holding the investors back from investing into India. The uncertainty created by the actions taken by policy makers might have led to unfriendly business environment in India. In this context, some of the statements and observations made in various reports are detailed below:

"Infrastructure projects in India carry significant risks associated with meeting government regulation, environment norms and legal requirements; inadequate user charges; and execution and construction risks".

"Procedural delays are bothering nearly all of the respondents with almost 93 percent of the respondents indicating this issue to be 'quite to very serious'. The time consuming systems and procedures to be complied with, the bureaucratic layers to be dealt with and the multiple bodies from which clearances are to be obtained- all add up substantially to the transaction cost involved and take up a lot of management time thus making it an issue of serious concern for the investors".

Review of Literature

In their paper have analyzed that instead of crowding out the small retailers, these particular sector should be strengthen. It can be achieved by enhancing their market positions by modernizing their working. The loss of market share of the unorganized sector retailers can be compensated by two factors. These two factors are growing economy and increasing purchasing power. There will be initial and desirable displacement of middlemen involved in the supply chain of farm produce. As per the study it is also concluded that but they would be absorbed by increase in the food processing sector induced by organized retailing.

Studied the retail industry in India. The researcher suggested that retailing industry is the most dynamic sectors in India. This particular sector is most dynamic because various investors are getting involved into the retailer market, and thus they have made it competitive and lucrative. This is a kind of industry that is providing millions of opportunities of employments for the people who either directly or indirectly involved in it.

Studied the "Foreign Direct Investment in Indian Retail Sector - A SWOT Analysis". The author suggested that the Government of India must properly discuss the advantages and disadvantages of FDI. The researcher also predicted that 51% FDI and have a law in place to control unfair competition. Then the FDI Bill will be given definitely a positive impact on the retail industry. As a result of which the country will get maximum foreign investment.

Examined the FDI in India. The researcher revealed in the study that there are both prons and cons of FDI in Indian retail market. FDI gives maximum tax revenue and it is advantageous to the government, because the tax collected can be used for infrastructure development. It will also provide job opportunity which is a crucial factor for developing countries. Analyzed that FDI (Foreign Direct investment) plays a very important role in the economic development of the nation. Although there is per capita income is higher, still it is inadequate for the purpose of overall development of the country. At that time FDI plays most important and most crucial role in the economy development of the nation. It is because the FDI seems to fill the gaps differences between

domestic savings and investment. India has the capability that it can attract much larger foreign investments than it has done in the past.

Research Methodology

The research process involves a circular flow because conclusions from research studies frequently give rise to fresh ideas and problems which should be further investigated. Moreover, the above steps overlap chronologically and form functionally interrelated activities. The interrelatedness of these steps involves backward and forward linkages. The backward linkage indicates that the subsequent steps exert substantial impact on the preceding steps in the research process. Thus, for example, the computer coding requirements are taken into account in the questionnaire design. The forward integration suggests that the preceding steps of research exert a tremendous impact on the structure of the following steps.

Data Analysis

The large and stable FDI flows also increasingly financed the current account deficit over the period. When there was a significant deceleration in global FDI flows during 2009-10 during the recent global crisis, it was moderate decline in FDI flows to India. This decline was relatively moderate reflecting robust equity flows on the back of strong rebound in domestic growth ahead of global recovery and steady reinvested earnings (with a share of almost 25 per cent) reflecting better profitability of foreign companies in India. However, during 2010-11, when there had been some recovery in global FDI flows, gross FDI equity inflows to India witnessed significant moderation especially driven by flows to Asian EMEs. Gross equity FDI flows to India moderated to US\$ 20.3 billion during 2010-11 from US\$ 27.1 billion in the preceding year.

Table 1: Equity FDI Inflows to India

(Percent)					
Sectors	2006-07	2007-08	2008-09	2009-10	2010-11
Sectoral shares (Percent)					
Manufactures	17.6	19.2	21.0	22.9	32.1
Services	56.9	41.2	45.1	32.8	30.1
Construction, Real estate and mining	15.5	22.4	18.6	26.6	17.6
Others	9.9	17.2	15.2	17.7	20.1
Total	100.0	100.0	100.0	100.0	100.0
Equity Inflows (US\$ billion)					
Manufactures	1.6	3.7	4.8	5.1	4.8
Services	5.3	8.0	10.2	7.4	4.5
Construction, Real estate and mining	1.4	4.3	4.2	6.0	2.6
Others	0.9	3.3	3.4	4.0	3.0
Total Equity FDI	9.3	19.4	22.7	22.5	14.9

FDI in India mainly flowed into services sector and hold an average share of 41 per cent in the past five years. This estimation was done from a sectoral perspective. This estimation was followed by share of manufacturing sector. It was around 23 per cent. Out of the total an average share of 43 per cent in the past five years is from Mauritius followed by Singapore that holds around 11 per cent. However, it was also observed that there is decline in the services from 2006-07 to 2010-11. It was 57 % earlier and later it was only 30%. On the other hand the shares of manufacturing, and ‘others’ largely

comprising ‘electricity and other power generation’ has been found increased over the same period (Table 1). Moderation in gross equity FDI flows during 2010-11 has been showed by sectoral information on the recent trends in FDI. It is also measured that it has been mainly driven by sectors such as ‘construction, real estate and mining’ and services such as ‘business and financial services’. Manufacturing, which has been the largest recipient of FDI in India, has also witnessed some moderation (Table 1).

Table 2: FDI Inflows in India (From 1948-2010)

Amount of FDI	Mid 1948	March 1964	March 1974	March 1980	March 1990	March 2000	March 2010
In crores	256	565.5	916	933.2	2705	18486	1,23,378

Table - 2 shows FDI inflows in India from 1948 - 2010. The tariff rates for various importable products. During 1991-92 to March 2010 in India FDI inflows increased manifold and when it was compared with the data available for the mid 1948 to march 1990 (Chart-1) it was found tremendously increased. During the period mid 1948 to march 1990, there were just few major countries those were investing in India. These countries were U.K., USA, Japan, Germany etc. But in the year 1991 this number has increased to fifteen. It was possible only due to introduction of some measures by the government to liberalize provisions relating to FDI in 1991 lure investors from every corner of the world. India emerged as a strong economic player

on the global front after its first generation of economic reforms. Till the year 2008 number of countries investing in India reached to maximum number of 120 in 2008. Although, India is receiving FDI inflows from a number of sources but large percentage of FDI inflows is vested with few major countries. Mauritius, USA, UK, Japan, Singapore, Netherlands constitute 66 percent of the entire FDI inflows to India. FDI inflows are welcomed in 63 sectors in 2008 as compared to 16 sectors in 1991.

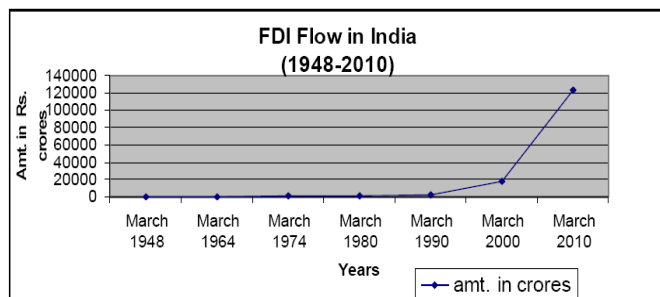


Chart 1: FDI Flow in India

During mid 1948 the FDI inflows in India were Rs, 256 crores. It was found to be doubled in March 1964. It was about Rs. 916 crores. India received a cumulative FDI inflow of Rs. 5,384.7 crores during mid 1948 to march 1990 as compared to Rs.1,41,864 crores during August 1991 to march 2010. After independence, in India it is observed from the (Chart - 1.3.1) that there has been a steady flow of FDI. From 1998 onwards there is a sharp rise in FDI inflows. U.K. the prominent investor during the pre and post independent era stands nowhere today as it holds a share of 6.1 percent of the total FDI inflows to India.

Conclusion

India is a great market and attracting other countries for trading foreign policies which discuss about the trading methods and techniques as well as investment policy. It explains how to trade at foreign level and discuss the strategies and maintain a policy. The market explores so many things with keep in mind the thought that we should have a control over it as there are so many technologies in the market and because of Indian culture government of India should access so many things and should control over it on funds and money and expenses etc.

Reference

1. Park Jongsoo Korean Perspective on FDI in India: Hyundai Motors' Industrial Cluster, Economic and Political Weekly. 2004, 3551-3555.
2. Pawin Talerngsri the Determinants of FDI Distribution across Manufacturing Activities in an Asian Industrializing Country: A Case of Japanese FDI in Thailand, 2001. www.scientificcommons.org/pawin_talerngsri.
3. Reserve Bank of India, RBI Handbook of Statistics on the Indian Economy, 2001.
4. Reserve Bank of India, RBI Handbook of Statistics on the Indian Economy, 2002.
5. Rhys Jenkins Globalization, FDI and Employment in Vietnam, Transnational Corporations, 2006; 15(1):115-142.
6. Rudi Beijnen FDI in China: Effects on Regional Exports, igiturarchie.vu.nl/student-theses.pdf. 2007.
7. Rydqvist Johan FDI and Currency Crisis: Currency Crisis and the inflow of Foreign Direct Investment, 2005. www.hj.diva-portal.org/smash/get/diva2.4438.
8. Salisu A. Afees the Determinants and Impact of Foreign Direct Investment on Economic Growth in Developing Countries: A study of Nigeria, Indian Journal of Economics, 2002, 333-342.