Abstract

Various factors are instrumental in attracting FDI to a country. This study aims to analyze the volume of inflow into India over the 10 years period from 2004-2013. The trends have shown a rapid growth in FDI flows to India, resulting in increased output through usage of advanced technologies and management techniques thus contributing to GDP and foreign exchange earnings. The study has been conducted purely on the basis on secondary data gathered from various e-sources, published articles and journals, which have been analyzed with the help of tables, graphs, charts and percentages. An analysis of the highest contributing countries towards FDI in India as well as the top performing sectors and states have also been undertaken. Mauritius stands to be the highest contributor of FDI to the country. The service sector, the construction development sector and the telecommunication sector were successful in attracting maximum FDI inflows. On the other hand, Maharashtra, the National Capital Region and Tamil Nadu were able to grab highest shares of FDI inflows to India. Although the top performing sectors and states have been able to attract maximum amounts of inflows, the ‘other states’ and ‘other sectors’ are not far behind. The past couple of years have seen those making efforts to attract more FDI than ever before.

1. Introduction

Foreign Direct Investment (FDI) is controlling the ownership in the business enterprise situated in one country by an entity based in another country. The investing company
may make its overseas investment in a number of ways - either by setting up a subsidiary or associate company in the foreign country, by acquiring shares of an overseas company, or through a merger or joint venture. Entities making direct investments typically have a significant degree of influence and control over the company into which the investment is made. There is a strong relationship between foreign investment and economic growth. Larger volumes of FDI inflows are needed for India to achieve sustainable high range economic growth. FDIs help in developing the economy by generating employment, revenues in the form of taxes and incomes, financial stability of the government and development of infrastructure. It also acts as support for the financial system. Open economies with skilled workforces and good growth prospects tend to attract larger amounts of foreign direct investment than closed, highly regulated economies. Some of the major location specific factors which may influence FDI attractiveness of a country are economic factors, political, legal factors, cultural factors, market factors, resource factors and factors relating to IJV formation.

Capital flows play a significant role in India’s growth dynamics. These capital flows brighten the overall investment climate and stimulate domestic investment.

2. Statement Of Problem
Foreign direct investments inflows into India have grown rapidly in the past two decades post the liberalization and globalization of Indian markets. Although inward FDI flows have been experiencing growth, the last few years post 2009, were witnesses to unstable declining growth as a result of slowdown in the Indian economy and the global financial crisis. This study, aims to critically analyze the current status of FDI in the country through a detailed study of the highest contributing countries to FDI in India as well as the top performing sectors and states in the country.

3. Data & Methodology

- **Objectives**- The Objectives of this study are as follows: (1)To study the total volume of inward FDI flow into India. (2) To examine the pattern of distribution of inward FDI flow into India – sector wise and state wise. (3) To investigate the factors contributing towards attracting inward FDI flows into India.

- **Data and Tools**– The data used to conduct this study is a mix of quantitative as well as qualitative data acquired mainly from secondary data spanning over a 10 year period starting Financial Year2004 to Financial Year2013. This data includes total FDI inflows into India over the past 10 years, the major contributors (countries) of FDI inflows into the country, its state and sectorial distribution.

- **Tools for Data Collection** – The data have mainly been acquired from secondary sources like websites of the Department of Industrial Policies and Promotions, Ministry of Commerce, India Brand Equity Foundation and Reserve Bank of India. Data has also been taken from various reports and factsheets as well as latest published articles from various journals.
• Methodology
The Data so collected has been subject to analysis in two stages. First has been to analyze the trends of flows into India and at the second stage, a sector wise analysis of how different sectors have shared the FDI inflows has been studied.

4. Empirical Results and Discussion
A. Trends in Foreign Direct Investment to India

![Figure 1 – FDI Inflow to India (Rs. in crores)](image)

Trends in FDI show a rapid growth in the past 10 years. The overall FDI inflows can be viewed as – the pre financial crisis period and the post crisis period. In the pre-crisis period, growth in FDI inflows was at very moderate levels until FY05, but this increased sharply in FY06 and FY07 in line with India’s high GDP growth rate of 9.6 percent and 9.3 percent during that period. Nonetheless, FDI inflows have been subject to fluctuations post the financial crisis in 2008. While inflows increased at a diminishing rate in FY08 and FY09, they fell significantly in FY10. Slowdown in the global economy could be attributed for this decline in the FDI inflows into India. FDI inflows recovered substantially in FY11 but dropped again in FY12. The inward FDI flows grew almost 9 times during this period with its highest peaking at Rs. 173,947 crores in the year FY11 and ended with a drop in the last financial year ended March 2014 with a total of Rs. 147,518 crores.

These fluctuations could be attributed to the uncertainties in the global economy coupled with economic slowdown in India on the one hand and the lack of political consensus on FDI issues on the other. The drop in inflow for the year 2010-11 is as a result of the aftermath of the subprime crisis, which crippled the United States, and also the Euro crisis that hit the European Union during the same time.

The monthly trends in inward FDI flows do not reveal any significant pattern. They are just a mix of ups and downs, which are a result of macroeconomic as well as microeconomic factors that affect the Indian economy. On examination of the quarterly trends, a modest demarcation has been observed in the trends of the first five years to
that of the latter portion of the decade. It was noticed that during the first five years, most of the FDI inflows entered the Indian market during the Q4 of the previous year and Q1 of the following year, whereas in the latter portion of the decade, India attracted majority inflows between Q2 and Q3 in any given year.

During the last decade, the top ten contributing countries of Foreign Direct Investment into India have been changing hands between 12 countries. These consisted of Mauritius, Singapore, The United Kingdom, Japan, The Netherlands, The United States of America, Cyprus, Germany, France, Switzerland, and The United Arab Emirates. The top three countries have invested a majority that covers close to 60 percent of inward FDI flows into India.

B. Pattern of Distribution of Inward FDI Flow into India

**SECTOR – WISE ANALYSIS**

The data relating to FDI inflow into the sectors during the past few years show that a majority of the investments from the FDI inflows were made into the Service sector making it the sector that attracted the highest amount of foreign equity among all the other sectors in the Indian economy. The Computer hardware and software industry that used to attract high amounts of FDI inflows and feature in the top five sectors to attract highest FDI until 2008 began to slip spots lower. More emphasis was given to the Telecommunications and construction sector.

In the past decade the top four sectors have managed to attract more than 45 percent of FDI on an average. Besides the investments made in the top ten sectors which most of
the times eat up a majority share, there are also other sectors that the FDI inflows from abroad have invested in. These sectors include information and broadcasting, non-conventional energies, mining, education, consultancy services, agriculture services, ports, rubber and textiles, scientific instruments, leather and leather goods, retail trade, timber, defense industries, etc. it is observed that at a gradual but slow pace that these sectors that are categorized as ‘Others’ have been gaining importance and investment are being drawn to them while there may not be stark differences in the volume of investments they have been moderately increasing year on year.

STATE– WISE ANALYSIS

New Delhi and Mumbai have continuously been capturing the first and second ranks as the regions that have attracted the maximum FDI in India. These are followed by Chennai, Bangalore, Hyderabad, and Ahmadabad have been fighting for the third, fourth and fifth spots while the latter five spots have been taken interchangeably by Kolkata, Bhopal, Kochi, Chandigarh, Panaji and Kanpur.

Almost 60 – 70% of inward FDI flows are being attracted by the top 5 regions; while the rest of the regions have been able to attract barely three to four percent or lesser of the FDI inflows in the past five years. Of the total Rs. 655,269 crores of FDI inflows, Rs 456,385 crores have been attracted by the top six in the list above, consisting of Mumbai, New Delhi, Chennai, Bangalore, Hyderabad and Ahmadabad, reflecting distinct signs of FDI concentration at the state level. The reason why these states are in the top 10 positions for attracting inward FDI’s into the country while others are not could be because of factors such as increased natural resources, presence of a strong industrial base; and the presence of higher service sector activities.

C. Factors Attracting Increased Inward FDI Flows to India

India’s attractiveness as a favorable location for FDI inflows lies in several factors - competitive labor costs, lucrative domestic market and its skilled workforce. Foreign investors also applaud its strong management and business education system, as well as its improving telecommunications infrastructure. However, the country’s weaknesses are its under-developed infrastructure and a restrictive operative environment. However this study has revealed the following as the top factors:

- **Labor Conditions** – Earlier lower wage locations were preferred so as to minimize cost of production of the foreign firms. The availability and price of skilled and professional labor influences the decision making of foreign investors. But now the focus has shifted towards attaching more importance to the quality of local labor. Since higher wage levels are a reflection of higher labor productivity or higher quality of human capital, therefore an investing firm which is looking for high quality and skilled labor may be attracted by the higher wage rate. The quality of labor is generally measured in terms of educational qualification of the workforce. India needs to improve its labor regulations, create more jobs in the manufacturing sector and enhance skills of millions of its workers.
• Availability of an Educated Workforce backed by a strong education system – India’s education system is among the largest in the world. By the allowance of foreign investment into the education sector, quality education will be more accessible and FDI in the country will also be given a much-needed boost.

• Size of Domestic Market – India is projected to become one of the largest consumer markets in the world by 2025, with consumer spending likely to rise from Rs.48.4 trillion today to Rs.193.5 trillion by 2020 according to a report by the Confederation of Indian Industry. This growth is driven by factors such as growing middle class, rapid urbanization, and improved access to credit and is all set to boost demand and productivity. Moreover the luxury market is also anticipating growth at an annual rate of 25% by 2015.

• Infrastructure – Development and availability of superior infrastructural facilities have a positive effect on the location choice of FDI firms. The supply of transport, energy and logistics infrastructure is insufficient to support the 7 – 8 percent growth expected in the future. Factories across the country suffer from power shortages, making backup generators a necessity for business, and adding to costs. Thus India needs to attract FDIs in such areas so that it can improve sectors that are lagging behind.

• Policy Environment – The local policy environment is mainly characterized by policies towards foreign direct investment, tax structure and investment incentives provided by the local government to attract FDI. Most of the states provide various kinds of incentives for attracting investment in the new industrial units as well as the existing ones. The incentives may be sector-specific or region specific.

5. Findings of the Study

- Trends in Foreign Direct Investments show a rapid growth in the past 10 years.

- Until the time that led to the pre subprime-crisis period (pre 2008), there was a sharp increase in the inflow of FDI into India, but post the financial crisis, these inflows were subject to fluctuations which could be attributed to the slowdown in the global economy. India as a result, although not wholly caving in to the crisis, has shown decline in FDI flows as well as growth in GDP but has been resilient throughout.

- The major contributors of inward FDI flows have constantly changed hands between Mauritius, Singapore, UK, USA, Japan, Cyprus and the Netherlands.

- India has the fastest growing services sector with its CAGR at 9 percent second only to China, which is at 10.9 percent. It has contributed substantially towards foreign investment flows, exports and employment.

- Findings from the study suggest that the construction and development sector has grown by almost as much as 20 times in the period from FY 04 to FY 09 contributing to most of the employment generated during that period.
The growth in the telecommunications sector shows that India’s tele-density has increased remarkably from a mere 10 percent in 2004 to almost 75 percent by the end of 2014 due to increased FDI contributions.

Almost 60 – 70 percent of FDI inflows are being attracted by a few top regions of the state, while the rest of the regions have been able to only grab barely three to four percent or lesser of FDI inflows during the years of study.

India’s attractiveness as a preferred location for FDI inflows lies in its competitive labor costs, lucrative domestic markets and skilled workforce. India is also commended for its strong management and business education system as well as its improving telecommunications infrastructure.

6. Conclusion
In conclusion, this study reveals that the subprime crisis has in fact affected FDI inflows into India. Post 2008 witnessed fluctuations in inward FDI flows into the country. These conditions could be attributed to uncertainties in the global economy, coupled with the economic slowdown in India and the lack of political consensus on issues concerning FDI. FDI inflows into India have consistently been dominated by neighbouring countries- Mauritius and Singapore. A sector wise analysis has concluded that the sectors that attract highest amounts of FDI inflows are the services sector, the construction development sector, and the telecommunications sector, triggering further debate on revisiting the FDI cap by the government in these sectors. Maharashtra, which was consistently attracting the highest FDI inflows among states, has revealed a declining trend. This decline has revealed substantial gains in investments for NCR (National Capital Region) and Tamil Nadu. Several other states have also begun working on their growth and developmental strategies and ways to attract higher amounts of FDI, thus offering the foreign investors more location choices. Further study in this field could be undertaken to explore the triggers for certain sectors being lucrative FDI destinations. A study on the factors prevailing in the states that have been consistently attracting top FDI inflows would also be useful to arrive at conclusions on an ideal FDI climate and is highly recommended.

7. References
Books

Published Journal Articles


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**E-Sources**


