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INFLOW OF FDI IN THE INDIAN ECONOMY: A DESCRIPTIVE ANALYSIS

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ABSTRACT

Foreign Direct Investment is very crucial factor for the development of the country and also plays a vital role for the technological up gradation and generation of employment opportunities. Service sector grows at a faster rate as compared to goods trade and beneficial for the transfer of the managerial skills abroad. In this research paper we have dealt with the effect of FDI inflows on the Indian economy over the period of 2011 to 2014.This analysis has revealed that Foreign Direct Investment has positive and significant impact on GDP .The importance of the FDI was increased after the new economic policy 1990-1991. The results found that foreign direct investment had a good and positive impact on the GDP.

KEYWORDS: FDI, GDP.

India is the second fastest growing major economy in the world. Indian economy is diverse and encompasses agriculture, handicrafts, manufacturing, textile and a multitude of services (Wang *et al.*, 2010). According to DIPP (Department of Industrial Policy and Promotion), services sector has included huge amount of foreign direct investment equity inflows during the period April 2000 – September 2014 (45 $ 40, 684.98 million) which is 18 percent of total foreign inflows. In addition five sectors which attract highest FDI inflows includes financial and non-financial services, telecommunications, computer software & hardware & hotels & tourism total foreign direct investment of India in terms of outflows have increased to $ 14.6 billion in 2010 from $ 4 million in 1980s .Major foreign direct investment were in tertiary sector, than agricultural sector etc. FDI was 31.4 percent in 2011-2012, as our Indian economy goes globalized after the New Economic policy 1991 FDI's will be likely to grow in the future.

LITERATURE REVIEW

Sen (2011) reviewed on FDI and service sector. The aim of the study was to analyze the impact on service sector due to increased Foreign Direct Investment. It also studies the impact on service sector towards India's Gross Domestic Product. To achieve the objectives data for 1970-2008 were collected from different published sources like Reserve Bank of India, UNCTAD and Business Beacon database. Tabular and percentage analyses were carried out to estimate the flow of foreign direct investment. It was found that foreign direct investment had shown a growth of 21 percent. It found that there was positive impact of foreign direct investment on service sector in addition to contribution of service sectors towards Gross Domestic Product. Author found that the following service sector had contributed more in growth of service sectors are trade, hotels and restaurants, storage and communication etc. Suggestive measures can be taken in order to increase the rate of foreign direct investment towards service sector.

Elboiashi *et al.* (2009) investigated the causal relationships between FDI, domestic investment (DI) and economic growth (GDP) in Egyptian, Moroccan and Tunisian economies. They applied co-integration time series techniques, Vector Error Correction (VEC) model over the sample period of 1970-2006. They found a unidirectional causality between FDI and GDP in Egypt and Morocco, and bi-directional causality between FDI and GDP in Tunisia.

Sirari and Bohra (2011) carried out research on Foreign Direct Investment in Indian service sector (A study of post liberalization).The purpose of the current research was to examine the importance of foreign direct investment inflows in Indian Services Sector from 1991-2010 and study the relationship between service sector growth in the Indian Economy. To achieve the objectives of the study data pertaining to the year 2001-2002 to 2005-2006 were collected from various published sources like Central Statistical Organization (CSO), Economic Survey of India, Ministry of Commerce and Industry Data, RBI bulletins, online database of Indian economy, Journals, articles and newspapers. Tables and pie charts were used in order to study the growth of service sector. Researcher concluded that FDI shows three times better performance (2000-2010) from the first decade in service sector. Banking and insurance, telecommunication were the growing sectors. Author also concluded that services sector has provided many

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employment opportunities for skilled workers along with high salaries.

Bose (2012) studied directed towards detecting the positive and negative sides for the foreign investors while they go for direct investment in India and China. A descriptive and explorative research study had been carried out for investigating the current proposition of the concerned case of FDI in those two countries.

Jiang *et al* (2010) conducted a study to know the impact of FDI on Chinese culture. To give the results, data has been collected from the major Chinese cities and found that FDI has significant effects on the degree of future orientation, performance orientation and group collectivism. It was found that FDI from Japan, Singapore, USA and UK has significantly negative effects on the degree of performance orientation. The study has concluded that FDI from Japan and Singapore has a significantly positive effect on the degree of in-group collectivism.

RESEARCH METHODOLOGY

For achieving the purpose of the study, data has been collected from the secondary sources over a period of 2000-2014. The data is collected mainly from several websites, annual reports, World Bank reports, research reports, fact sheet on foreign direct investment, press notes of government of India, FDI database etc.

OBJECTIVE

We are presenting the objectives of this study which are here-in-under:

1. To know the trend of FDI inflows in India.

2. To study the, monthly wise FDI Equity Inflows of India.

3. To study the share of service sectors that attracted maximum FDI Equity Inflows in India.

ANALYSIS AND INTERPRETATION

To achieve the objectives of this study we make an analysis on the basis of collected data. The results on the basis of secondary data are following as under:

Table 1: Foreign Direct Investment Equity Inflows (FDI)

Sr. No.	Year (April – March	FDI Inflows	
		Total FDI flows (in US $)	% Growth over previous year (in US terms)
1	2000-2001	4,029	-
2	2001-2002	6,130	(+)52
3	2002-2003	5,035	(-)18
4	2003-2004	4,322	(-)14
5	2004-2005	6,051	(+)40
6	2005-2006	8,961	(+)48
7	2006-2007	22,826	(+)155
8	2007-2008	34,843	(+)53
9	2008-2009	41,873	(+)20
10	2009-2010	37,745	(-)10
11	2010-2011	34,847	(-)8
12	2011-2012	46,556	(+)34
13	2012-2013	34,298	(-)26
14	2013-2014 (P)	36,046	(+)5
Source: P- Provisional, "+"-Reinvested and other capital			

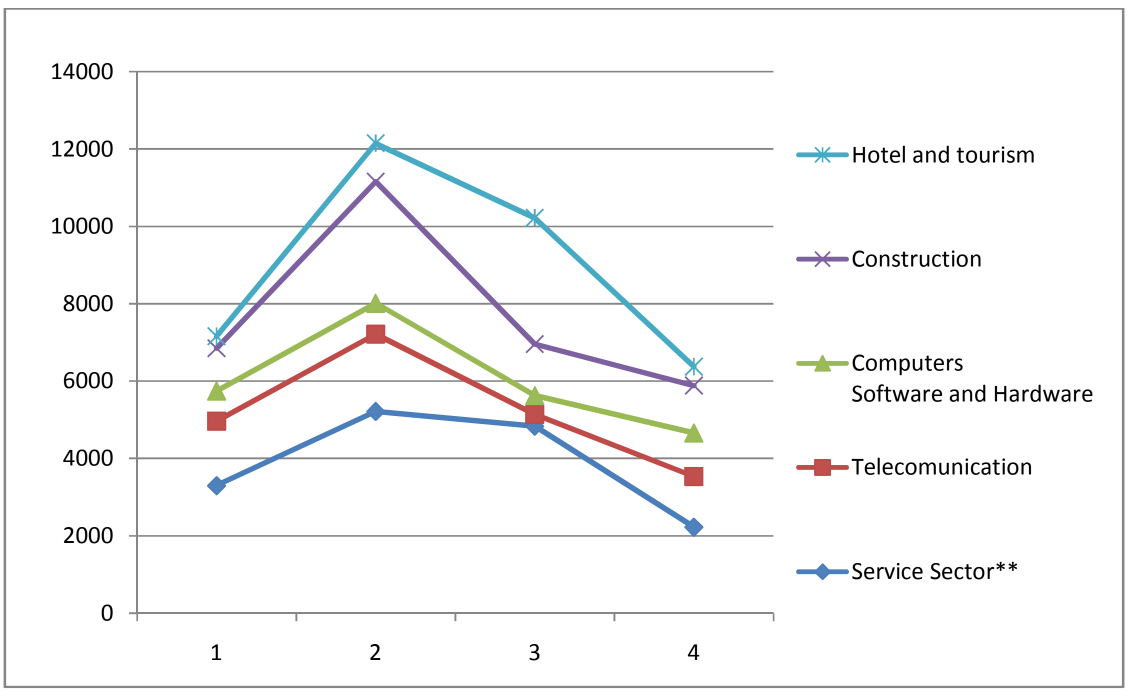
Table No. 1 shows the cumulative foreign direct investment from the year 2000-2014. It was revealed that the foreign direct investment into India grew at the rate of 52 percent from the year 2000-2002 but showed a negative trend in next two years that was from 2002-2004. There has been a great overflow of the

FDI in the year 2004-2005 with 40 percent and 48 percent in the next year that was in 2005-2006. There was a sharp growth of foreign direct investment in the year 2006-2007 with 155 percent and this year was a rare case from 2000-2014 where the growth rate was higher during the study period. Negative trend had been followed by the foreign direct investment in the year 2009-2010 with the rate of 10 percent and after that 8 percent contraction in the growth rate in the year 2010-2011.The year of 2011-2012, 2013-2014 showed a positive rise in the growth rate of FDI at the rate of 34 percent and 5 percent respectively. There has been a decline in the growth of FDI at the rate of 26 percent during the period of 2012-201

Table 2: Sectors attracting highest FDI Equity Inflows

Rank	Sector	FDI Inflows in (US $ Million)					
		2010-11	2011-12	2012-13	2013-14	Cumulative inflows	% of total inflow (US $)
1	Service Sector**	3296	5216	4833	2225	38,824	19%
2	Telecommunication	1665	1997	304	1307	12,938	6%
3	Computers Software and Hardware	780	796	486	1126	12,231	6%
4	Construction	1103	3141	1332	1226	22,994	11%
5	Hotel and Tourism	308	993	3259	486	6910	3%

Source: **Service sector includes Financial, Banking, Insurance, Non-Financial/Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis

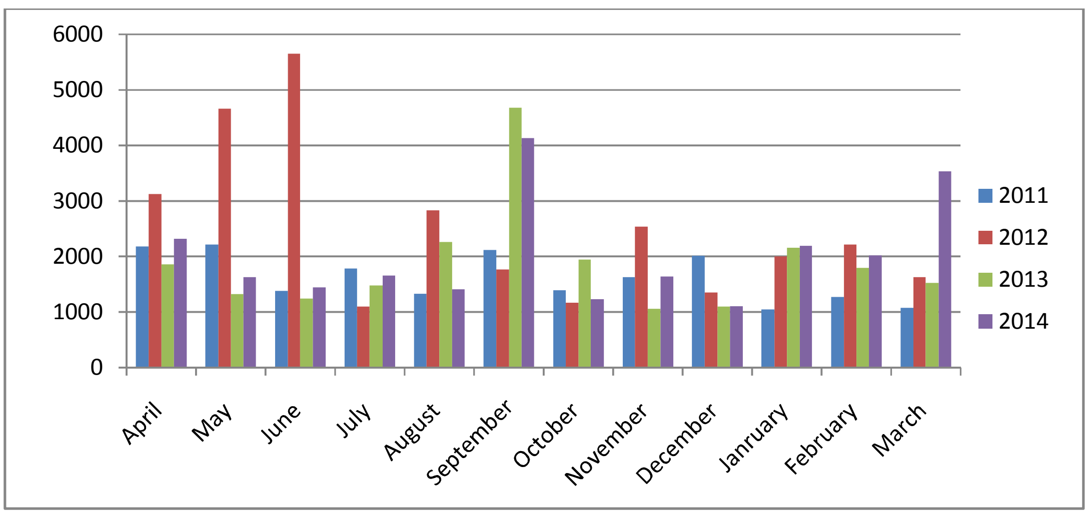


Graph 2.1

Table 2 shows the sectors which attract the highest amount of FDI Inflows from the year 2011 to 2014 and it was analysed that the first the service sector, telecommunication sector and the construction sector receives a large amount of FDI inflows. The below mentioned graph is the graph of the table 2.1 which is divided into three colours and shows that the service sector consists of 19 percent of the total FDI followed by the construction sector with 11 percent of the total FDI inflows and then the telecommunication and the computer hardware and the software were on the same track with 6 percent FDI in flows and lastly the hotels and the tourism sector with 3 percent FDI inflows in the Indian economy.

Table 3: Foreign Direct Investment Equity Inflows – Monthly Wise (Amount in US $ Million)

Month	2011	2012	2013	2014
April	2179	3121	1857	2322
May	2213	4664	1327	1631
June	1380	5656	1244	1444
July	1785	1099	1475	1657
August	1330	2830	2264	1408
September	2118	1766	4679	4132
October	1392	1166	1942	1226
November	1628	2538	1058	1638
December	2014	1353	110	1101
January	1042	2004	2157	2189
February	1274	2211	1795	2017
March	1074	1628	1525	3532
Total	19,429	30,036	22,423	24,297



Graph 3.1

Table no. 3 and the graph represent the inflow of the FDI in the Indian economy and this is clear from the year 2012 the FDI was maximum in India. In the graph the blue line shows the FDI in the year 201, red shows the FDI in the year 2012. Similarly green shows the FDI in the year 2013 and purple of the year 2014.FDI equity inflows from top ten countries like India received maximum FDI from Mauritius, followed by Singapore, U.K, Japan and U.S.A by securing rank first, second, third, fourth and fifth respectively. The main reason for higher levels of investment from Mauritius was that the fact India entered into a double taxations avoidance agreement (DDTA) with Mauritius were protected from taxations in India.

CONCLUSION

The main objective of this study is to analyze the trend of FDI equity inflows in different sectors. It is to be seemed that there were high variations in the FDI equity inflows in the Indian economy and the service sector received the maximum amount of FDI equity inflows that is 19 percent. There was a sharp growth of foreign direct investment in the year 2006-2007 with 155 percent and this year was a rare case from 2000-2014 where the growth rate was higher during the study period. This type of trend of the FDI equity inflows helps the economy to manage the difficult situation rose during the growth of the service sectors and can be helpful in planning of the rules regarding growth of the service sector. The above mentioned tables and charts also revealed that FDI Inflows had good impact on the Gross Domestic Product of India.

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