

Sectoral Analysis of FDI Inflows In India



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ABSTRACT

Foreign Direct Investment (FDI) is considered to be the lifeblood of economic development especially for the developing and underdeveloped countries. FDI is a tool for jump-starting economic growth through its strengthening of domestic capital, productivity and employment through the up gradation of technology, skills and managerial capabilities in various sectors of the economy. The present paper attempts to analyze significance of the FDI Inflows in various Indian sectors from 2005-2010. The Sector-wise Analysis of FDI Inflow in India reveals that maximum FDI has taken place in the service sector including the telecommunication, information technology, travel and many others. The service sector is followed by the manufacturing sector in terms of FDI.

Keywords :- FDI, domestic capital, productivity, employment, economy, sectors.

INTRODUCTION

FDI plays an important role in the long-term development of a country not only as a source of capital but also for enhancing competitiveness of the domestic economy through transfer of technology, processes, products, organizational techniques, strengthening infrastructure, raising productivity and generating new employment opportunities. FDI is widely accepted as a major resource for the economic development of developing countries. FDI provide opportunities to host countries to enhance their economic development and opens new opportunities to home countries to optimize their earnings by employing their ideal resources. In India, FDI is considered as a developmental tool, which can help in achieving self-reliance in various sectors of the economy. With the announcement of Industrial Policy in 1991, huge incentives and concessions were granted for the flow of foreign capital to India. India is a growing country which has large space for consumer as well as capital goods. India's abundant and diversified natural resources, its sound economic policy, good market conditions and highly skilled human resources, make it a proper destination for foreign direct investments. As per the recent survey done by the United National Conference on Trade and Development (UNCTAD), India will emerge as the third largest recipient of foreign direct investment (FDI) for the three-year period ending 2012.

IMPORTANCE OF FDI STUDY

For developing countries FDI is significant not only for employment generation but also for improving its productivity as well. FDI brings to the recipient country not only foreign capital, but also efficient management, superior technology and innovations in products and marketing technique, which are generally

in short supply in the developing countries. Thus access to foreign capital helps overcome the managerial and technological gaps in the host country. Further, foreign firms can increase competition in domestic markets, reduce monopoly profits and improve the quality of products and services. FDI in India comes through non- resident Indians, international companies, and other foreign investors.

METHODOLOGY OF THE STUDY

This study is based on secondary data. The main source of data are various Economic Surveys of India and Ministry of Commerce and Industry data, RBI bulletin, online data base of Indian Economy, journals, articles, news papers, etc.. It is a time series data and the relevant data have been collected for the period 2006 to 2011. The period has been chosen for the study from 2006 because FDI inflows have picked up from 2006. Compound Annual Growth Rate is worked out by using the following log-liner relation:

$$\log Y_t = \log a + t \log b^1$$

In order to analyse the collected data, various statistical and mathematical tools were used.

FDI IN INDIA

The table shows the inflow of FDI in India from 2006-2011 and it's clear that FDI inflows have picked up from 2006 onwards except from 2009-10. Irrespective of the global meltdown the last three years i.e. from 2007-08 to 2009-10, show the stagnation and not the decline in the inflow of FDI in India. The compound growth rate of FDI inflows during 2006-2011 in India was 26.88% in terms of rupees and 25.38% in terms of US\$.

See Table 1

FDI FLOW AT SECTORAL LEVEL

Sector wise Analysis of FDI Inflow in India reveals that maximum FDI has taken place in the service sector in-

cluding the telecommunication, information technology, travel and many others. FDI Inflows to Service Sector has been phenomenal in the past few years. Since the onset of the liberalization of the Indian economy in 1991, the country has experienced a huge increase in the inflow of Foreign Investments. The service sector in India has tremendous growth potential and as such it has attracted huge Foreign Direct Investments (FDI). The FDI Inflows to Service Sector has helped the development of several industries in the service sector of the Indian Economy, such as Tele Communication, Financial and Non financial, Hotel & Tourism, and many others. The compound growth rate of FDI inflows during 2006-2011 in service sector was 28.31%. The service sector is followed by the computer hardware and software in terms of FDI. Software Technology Parks, regulatory reforms by the Indian government, the growing Indian market and availability of skilled workforce have been important factors in boosting FDI inflows to computer software and hardware in India. Over the past few years the computer software industry has been one of the fastest growing sectors in Indian economy. With respective of the global meltdown the last three years i.e. from 2008-09 to 2010-11, show the decline in the inflow of FDI in India

tion in the India as well as increasing demand for exports are expected to lead to more Foreign Direct Investments in this sector. dia. Tremendous growth has taken place in this sector in recent years. A number of telecom service providers are working in both the private and public sector. The two most crucial causes behind the huge success of the telecom sector are the growing demand for mobile phone services and private sector participation in the telecommunication industry. The compound growth rate of telecommunication industry has witnessed 32.90% in the period of 2006-2011. Construction activities Sector includes construction development projects viz. housing, commercial premises, resorts, educational institutions, recreational facilities, city and regional level infrastructure, township. FDI Inflows to Construction Activities has led to a phenomenal growth in the economic life of the country. The compound growth rate of Construction activities Sector have witnessed 45.68 % in the period of 2006-2011. India has become one of the most prime destinations in terms of construction activities as well as real estate investments. FDI inflows to real estate sector in India have developed the sector. Real estate is one of the major sectors under construction activities

Table -1 YEAR WISE FDI INFLOWS IN INDIA FROM 2006-2011

Year	Amount of FDI flows In terms of Rs. Crores	%age growth over In terms of US \$ Million	previous year (in terms of US \$)
1	2	3	4
2005-06	24,584	5,540	(+) 72 %
2006-07	56,390	12,492	(+) 125 %
2007-08	98,642	24,575	(+) 97 %
2008-09	123,025	27,330	(+) 11 %
2009-10	123,120	25,834	(-) 05 %
2010-11*	77902	17080	
Compound growth rate	26.88	25.38	

* (up to January 2011)

Source: Department of Industrial Policy & Promotion Ministry of Com & Industry

See Table No 1.1

The computer software industry has witnessed a negative compound growth of -15.68% in the period of 2006-2011. Software Technology Parks (STP) have been a major initiative in India to drive in Foreign Direct Investment in the computer software industry. These Software Technology Parks provide highly developed infrastructure and facilities that attract foreign investors. Regulatory measures by the Indian government have also played a positive role in this regard. Measures like increased freedom of recruiting and laying-off employees, tax benefits and easing of export producers have contributed to the growth of FDI in this sector. High growth prospects, in terms of increased consump-

and also it is one of the most booming sectors that have contributed leaps and bounds to the Indian industry. The real estate sector has witnessed the highest compound growth rate of 90.75 % in the period of 2006-2011

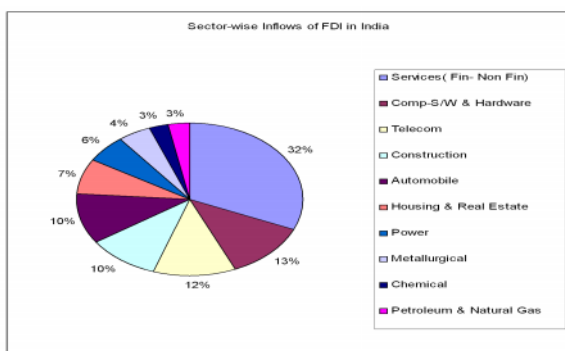
The increasing in the levels of disposable income and introduction of tailor made finance schemes, easy repayment schemes has also helped the growth of the automobile sector. The basic advantages provided by India in the automobile sector include, advanced technology, cost-effectiveness, and efficient manpower. Besides, India has a well-developed and competent Auto Ancillary Industry along with automobile testing and R&D centres. Opportunities of FDI in the Automobile Sector in India exist in establishing Engineering

TABLE :1 CUMULATIVE FDI EQUITY INFLOWS IN SECTORS FROM

Years	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11*	Cumulative Inflows (April '00 - Jan. '11)	% age to total Inflow (in terms of US\$)	Compound growth rate
1	2	3	4	5	6	7	8	9	10
Services (Fin- Non Fin)	2399	21047	26589	28,516	20,776	13,652	118,923	21%	28.31
Comp-S/W & Hardware	6172	11786	5623	7,329	4,351	3,225	47,340	8%	-15.68
Telecom	2776	2155	5103	11,727	12,338	6,041	46,746	8%	32.90
Construction	667	4424	6989	8,792	13,516	4,540	40,233	7%	45.68
Automobile	630	1254	2697	5,212	5,754	5,375	26,198	7%	57.72
Housing & Real Estate	171	2121	8749	12,621	13,586	4,791	42,163	5%	90.75
Power	356	713	3875	4,352	6,908	4,711	25,715	4%	74.29
Metallurgical	6540	7866	4686	4,157	1,935	4,632	18,073	3%	-15.88
Chemical	1731	930	920	3,427	1,707	1,739	13,007	2%	9.45
Petroleum & Natural Gas	64	401	5729	1,931	1,328	2,471	13,585	2%	81.03

* (up to January 2011)

Source: DIPP, Federal Ministry of Commerce and Industry, GOI



Centres, Two Wheeler Segment, Exports, Establishing Research and Development Centres, Heavy truck Segment, Passenger Car Segment. The compound growth rate of Automobile Industry has witnessed a growth of 57.72 % in the period of 2006-2011. The metallurgical industries in India are the biggest manufacturers of sponge iron across the world and they also produce around 35 million tonnes of steel each year. The metallurgical industries in India are largely dominated by the public sector. The major companies in the metallurgical industries in India are Tata Steel, Nalco, SAIL, Sterlite, and Hindalco. The government of India has allowed foreign direct investment (FDI) up to 100% through the automatic route in the metallurgical industries in India. The Metallurgical Industries has witnessed a growth of -15.88 % CGR in the period of 2006-2011. The increased

FDI Inflows to Metallurgical Industries in India has helped to bring in the latest technology to the industries. This has helped in improving the quality of the products of the metallurgical industries in India. All this has helped in improving the quality of the products of the metallurgical industries in India. Thus the sector wise inflows of FDI in India shows a varying trend but acts as a catalyst for growth, quality maintenance and development of Indian Industries to a greater and larger extend. The technology transfer is also seen as one of the major change apart from increase in operational efficiency, managerial efficiency, employment opportunities and infrastructure development. From above chart its clear that of all the sectors of Indian economy, services (fin and non fin) attracted maximum FDI inflows of 32% from 2005- 11 followed by Computer software & Hardware 13%, Telecom 12%, Automobile and Construction 10%, Housing 7%, Power 6%, Metallurgical 4%, and least was attracted by Petroleum & Natural Gas and Chemicals i.e. 3%. The FDI Inflows to Service Sector has helped the development of several industries in the service sector of the Indian Economy, such as Tele Communication, Financial and Non financial, Hotel & Tourism, and many others. FDI Inflows to Service Sector has been phenomenal in the past few years. The service sector in India has tremendous growth potential and as such it has attracted huge Foreign Direct Investments.

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