An Analysis of Foreign Investment Flows in India

OPEN ACCESS

Volume: 7

Issue: 1

Month: January

Year: 2019

ISSN: 2320-4168

Received: 09.01.2019

Accepted: 10.01.2019

Published: 31.01.2019

Citation:
Suresh Babu, P & Ganesan, S. "An Analysis of Foreign Investment Flows in India." Shanlax International Journal of Commerce, vol. 7, no. 1, 2019, pp. 45–49.

DOI:
https://doi.org/10.5281/zenodo.2550053

P.Suresh Babu, M.Com., M.Phil., Ph.D.,
Assistant Professor & Head
P.G. and Research Department of Commerce
Government Arts College for Women
Nilokottai, Tamil Nadu, India

S.Ganesan, M.Com., M.Phil., Ph.D.,
Assistant Professor & Head
P.G. and Research Department of Commerce
Raja Dorai Singam Government Arts College
Sivagangai District, Tamil Nadu, India

Abstract
Foreign Direct Investment (FDI) is a type of investment in to an enterprises in a country by another enterprises located in another country by buying a company in the target country or by expanding operations of an existing business in that country. In the era of globalization FDI takes vital parts in the development of both developing and developed countries. FDI has been associated with improved economic growth and development in the host countries which has led to the emergence of global competition to attract FDI. FDI offers number of benefits like overture of new technology innovative products, and extension of new markets, opportunities of employment and introduction of new skills etc which reflect in the growth of income of any nation FDI is one of the measures of growing economic globalization investment has always been an issue for the developing economies such as India.
Keywords:Foreign Direct Investment (FDI)

Introduction

The Indian economy is so versatile that there exist many variables which move the economy ahead. There are different parameters which govern the Ups and downs in the growth of the economy like foreign investment, exports, imports, literacyrate, employment, and so forth. The major macroeconomic variables like inflation, exchange rate, industrial growth, interest rate , money supply, and so forth act as steering wheel of our economy.

India launched programmers of economic policy reforms in response to a fiscal and balance of payment crisis in July 1991. The programmers consisting as stabilizing-cum-structural adjustment measures was pulp in place with a view to attain macroeconomic stability and higher rate of economic growth while the1980s witnessed a rather limited deregulation the reforms of the 1990s are much.

In 1990 -91 the central fiscal deficit was 8.3 per cent of GDP. The primary deficit was 4.3 per cent. An unexpected balance of payment crisis emerged in early 1991. The large current account deficit particularly after 1984 -85 was financed by substantial inflows of capital by way of commercial borrowing and deposits by non-resident India's. The totals external debt increased from Us $ and 20.6 million in 1980 to Us $ 34.4 billion in 1984 to Us $ 70.1 billion in 1990. Debt services, as a per cent of expert of goods and services, increased from 9.3 per cent in 1980 to 26.8 per cent in 1990.

Foreign investment had played a very to 1991. India followed a fairly restrictive foreign private investment policy until 1991 relying more on bilateral and loans with long maturities. Inward foreign direct investment was perceived as a means of acquiring industrial technology that was of acquiring industries through licensing agreements and capital goods imports. As a part of the economic reforms initialization from 1991 the attitude of the government changed dramatically towards foreign investment both direct and portfolio over the post reform period. India not only permitted foreign investment in almost all sectors of the economy but also allowed technology acquisitions efforts. The increased inflow of foreign funds into the developing countries like India is expected to act as of economic growth.

Foreign investment is a source of additional external finance garmenting fixed investment potential output and employment foreign direct investment (FDI) is now widely perceived as an important resource for expecting the industrial development of developing countries in view of the fact that it flows as a bundle of capital technology, skills and some times even market access. FDI is not development problem, it's a catalyst in the growth process. It enhance the efficiency of others inputs in the growth process through it well know sole as supplier f technology and know portfolio investment is a now phenomenon came to occupy a place in the capital account only after 1992-1993.

The Indian economy stood at the 11th position in the world with regards to the nominal gross domestic product (GDP) for fiscal year 2011-2012. The year 2011- 2012 witnessed at 9 year low growth of the Indian economy (it grew at a rate of 6.5%) and the reasons tracked could be the week monetary reasons policy inflation issues, and investment. there are some perquisites of the economy which need to be carefully monitored from time to time build a strong base of the economy. India is one of the most attractive destinations for foreign investment. Since liberalization, when foreign investment (FDI) and foreign institutional investment (FDI) where allowed to enter India, our economy has grown by manifolds, foreign investment play a very significant role in the India economy.

Statement of the Problem

India launched a programmed of economic policy reforms in response to a fiscal and balance of payment crisis in July 1991.the fiscal deficit was 8.5 per cent of the current account deficit was 3.5 per cent of GDP in 1990 -1991. As a percentage of export earnings, the debt services bladdernose to 30 per cent simultaneously, there was a run on deposits held by non- resident Indians, and it balance difficulty even to roll over the existing short term debt as international creditors held back from lending to India for the first time in its history. India was international payments. The government was left with no option expect to turn to the IMF and World Bank to avoid default and to restore creditability with international creditors. The realization that it was the mode of financing the trade and current account deficit through commercial borrowings that led to the crisis, prompted the policy makes to think about the mode of financing the deficits. The Pangarajan committee recommended a switch from debt creating flows to non–debt creating capital flows like FDI and FPI.

The opening up on the Indian economy foreign investment from 1991 led to massive capital flows into the country. Cumulative foreign investment inflows from august 1991 to march 2009 have been to the of $ 22022 million out of this total the share of foreign discus investment was 64.64 per cent where as the balance 35.35 per cent was the contribution of portfolio investment. The foreign exchange users which fell to less than $ 1 billion in April 2008.the current account of India's balance a at creditors to the IMF under the financial transaction plan (FDI) in 2004 and extended a financial assistance to the tune of $ 93.5 million.

The government also have taken steps to accelerate the development of domestic of capital market and foreign exchange rate markets. These development also with the shift from debt finance to non creating capital flows have contribution to a market improvement in the sources of external financing foreign investment inflows have macro economic repercussions changing the dynamic of balance of payments, foreign exchange markets money supply and foreign exchange attempt to examine and explore these issues and problems.

Objectives of the Study

The following are objectives:

1. To analyses the sector-wise distribution of Foreign Direct Investment and
2. To examine the impact of foreign portfolio inventor's investment.

Methodology

The study is based upon secondary data only. The secondary data have been collected from Journals, Books, Articles, and Websites. The various statistical techniques have been used such as Percentage Analysis, Trend Analysis.

The Sector Wise Distribution of FDI

The sector-wise distribution of FDI such as manufacture sectoral shares, service sectoral shares, construction real estate and mining and others.

Manufacture Sectoral Shares

Table 1 shows the equity FDI inflows in India through manufacture sectoral shows from 2006 – 2007 to 2015–2016.

Table Equity Inflows in India – Manufacture Sectoral Shares

Year	Sectoral Share (%)	Increase/Decrease (%)
2006 – 2007	17.6	--
2007 – 2008	19.2	-1.6
2008 – 2009	21.0	-1.8
2009 – 2010	22.9	-1.9
2010 – 2011	32.1	-9.2
2011 – 2012	34.84	-2.74
2012 – 2013	46.55	-11.71
2013 – 2014	34.29	12.26
2014 – 2015	36.04	-1.75
2015 – 2016	44.29	-8.25
Total	**308.81**	

Source: Compiled from Annual Reports of FDI inflows, furnished by RBI.

It is clear from Table 1 that equity inflows in India of manufacture sector which stood at 17.6 per cent in the year 2006 – 2007 had increased in 2015 – 2016 at 44.29 per cent.

Services Sectoral Shares

Table shows are equity FDI in India in India of services sectoral share.

Table Equity Inflows in India – Service Sectoral Shares

Year	Sectoral Share (%)	Increase/Decrease (%)
2006 – 2007	56.9	--
2007 – 2008	41.2	15.7
2008 – 2009	45.1	-3.9
2009 – 2010	32.8	12.3
2010 – 2011	30.1	2.7
2011 – 2012	26.48	3.62
2012 – 2013	22.25	4.23
2013 – 2014	32.53	-10.28
2014 – 2015	6.36	26.17
2015 – 2016	43.35	-36.99
Total	**337.07**	

Source: Compiled from Annual Reports.

Table reveals that equity FDI inflows in India services sectoral shares which stood at 56.9 per cent in the year 2006 – 2007 had fluctuating trend between 2011 – 2012 and 2015 – 2016 in 43.35 per cent.

Construction Real Estate and Mining

Table shows are equity FDI inflows in India of construction real estate and mining from 2006 – 2007.

Table Equity Inflows in India – Construction Real Estate and Mining

Year	Sectoral Share (%)	Increase/Decrease (%)
2006 – 2007	15.5	--
2007 – 2008	22.4	-6.9
2008 – 2009	18.6	3.8
2009 – 2010	26.6	-8
2010 – 2011	17.6	9
2011 – 2012	19.85	-2.25
2012 – 2013	12.26	7.59
2013 – 2014	7.58	4.68
2014 – 2015	3.48	4.1
2015 – 2016	24.09	-20.61
Total	**167.96**	

Source: Compiled from Annual Reports.

It could be observed from that Table 3 equity inflows in India of construction, real estate and mining which stood at 15.5 per cent in the year 2006 – 2007 had increased from 2015 – 2016 in 24.09 per cent.

Others Sectoral Shares

Table shows are equity FDI inflows in India other sectoral shares.

Table Equity FDI in India – Others

Year	Sectoral Share (%)	Increase/ Decrease (%)
2006 – 2007	9.9	--
2007 – 2008	17.2	-7.3
2008 – 2009	15.2	2
2009 – 2010	17.7	-2.25
2010 – 2011	20.1	-2.4
2011 – 2012	35.12	-15.02
2012 – 2013	22.42	12.7
2013 – 2014	24.29	-1.87
2014 – 2015	30.93	-6.64
2015 – 2016	9.50	21.43
Total	202.36	

Source: Compiled from Annual Reports.

It could be seen from Table 4 that equity inflows in India of others which stood at 9.9 in 2006 – 2007 had fluctuating trend between 2011 – 2012 and 2015 – 2016 in 9.50 per cent.

Sectoral Shares

Table shows the equity FDI inflows in India through sectoral shares.

Table Equity FDI in India – Sectoral Shares

Year	Manufacture	Sector Service	Construction Real Estate Mining	Others
2006 – 2007	17.6	56.9	15.5	9.9
2007 – 2008	19.2	41.2	22.4	17.2
2008 – 2009	21.0	45.1	18.6	15.2
2009 – 2010	22.9	32.8	26.6	17.7
2010 – 2011	32.1	30.1	17.6	20.1
2011 – 2012	34.84	26.48	19.85	35.12
2012 – 2013	46.55	22.25	12.26	22.42
2013 – 2014	34.29	32.53	7.58	24.29
2014 – 2015	36.04	6.36	3.48	30.93
2015 – 2016	44.29	43.35	24.09	9.50
Total	**308.81**	**337.07**	**167.96**	**202.36**

Source: Compiled from Annual Reports.

Equity FDI inflows in India of manufacture sector which stood at 17.6 per cent in the year 2006 – 2007 had increased in 2015 – 2016 at 44.29 per cent.

Conclusion

The foreign investment and macro economic variables have a strong relationship with each other most of the studies pointed out to the inflow and outflow of FIIs from the economy at different point of time like during fall of GDP, rising inflation, depreciating exchange rate, and so forth. The timing of the inflow of foreign investment is to a large extent, affected by the economic situation at different times, which is reflected in the GDP, rate of inflation, balance of trade, wholesale price index, exchange rate and the like.

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