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An economic Analysis of Globalization and Foreign Direct Investment Inflows in India

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Abstract
Foreign direct investment (FDI) is direct investment into production or business in a country by a company in another country, either by buying a company in the target country or by expanding operations of an existing business in that country. Foreign direct investment is done for many reasons including to take advantage of cheaper wages or for special investment privileges such as tax exemptions offered by the country as an incentive to gain tariff-free access to the markets of the country or the region. Foreign direct investment is in contrast to portfolio investment which is a passive investment in the securities of another country such as stocks and bonds. FDI refers to the net inflows of investment (inflow minus outflow) to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. This paper aims to analyse globalization and Foreign Direct Investment inflows in India.
Key words: FDI – Foreign Direct Investment, RBI – Reserve Bank of India, GEI – Globalisation Equity Inflow, EII - Equity Inflow of India

Introduction

Foreign Direct Investment (FDI) is probably one of the most significant factors leading to the globalization of the international economy. FDI inflows to the developing countries increased remarkably in the 1990s and now accounts for about 40 per cent of global Foreign Direct Investment in India has expanded rapidly following the liberalization programme initiated in the early 1990s.The immediate to overcome the major economic crises and direct the economy towards a sustained growth accelerating economic growth through liberalization and globalization it but also inviting foreign capital and technology. It also meant restructuring its trade regime to prepare the economy for greater integration with global economy. Hence, the present research paper aims to analyse globalization and Foreign Direct Investment inflows in India.

Objectives of the study

The main objectives of this research paper are as follows:

1. To study the growth of FDI Equity inflows in India
2. To study the Country- Wise FDI Equity inflows in India

Data Requirement

This research paper is completely based on the secondary data. The secondary data collected for this analysis are related to the years-wise FDI Equity inflows, share of countries FDI, Equity inflows, sectors-wise FDI Equity Inflows of India.

Sources of Data

For this study, the required data have been collected mainly from the RBI monthly Bulletin 2012.

Period of study

The analysis for this study is a period of 12 years from 2000-2012. The choice of this study period is mainly due to the availability of data.

Methodology

To study the trend of year- wise FDI Equity inflows in India simple linear regression technique has been used in which the value of years- wise FDI Equity inflows. Is taken as the dependent variable and time is taken as the independent variable. The regression coefficient then measure the average increase in the FDI Equity Inflows, per year.

To estimate the compound growth rate of Equity inflows, semi- log linear regression technique has been used in which the logarithm of Equity inflows is taken as the dependent variable. The regression coefficient in this case will measure the increase in the Equity inflows per year in terms of percentage. The annual growth rate is calculated. In necessary cases linear growth numbers have also been worked out of understand easily the trend of Equity Inflows, by taking the figure for the years 2000 as the base years figures.

Table -1 Foreign Direct Investment Equity Inflows in India During-2000-2012

Year	Amount of FDI Inflows	Index Number	Growth rate
2000-01	10733	100.00	-
2001-02	18654	173.80	73.80
2002-03	12871	119.92	-31.00
2003-04	10064	93.77	-21.81
2004-05	14653	136.52	45.59
2005-06	24584	229.05	67.77
2006-07	56390	525.38	129.38
2007-08	98642	919.05	74.93
2008-09	142829	1330.75	44.79
2009-10	123829	1153.72	-13.30
2010-11	88520	824.75	-28.51
2011-12	122307	1139.54	38.17

L.G.R: 94.50 Per cent, Average: 60339.67 Crores of Indian Rupees.

Sources: RBI, Bulletin, April 2000 - January 2012.

Table 1 Provides data on the Equity inflows Foreign Direct Investment of India over the period of 2000-01 to 2011-12. The value of Equity inflows of this item has Increased from 10733 crores if Indian Rupees in 2000-01 to 122307 crores of Indian Rupees in 2011-2012 with some fluctuations.

Annual growth rate Equity Inflows of India (EII) has decreased from 73.80 per cent in 2000-2001 to 38.17 per cent in 2011-2012 with some fluctuations. The linear growth rate and average value of the Equity inflows are 94.50 per cent 60339.67 crores of Indian Rupees over the period 2000-01 to 2011-12 respectively.

Figure 1 Foreign Direct Investment Equity Inflows in India During-2000-2012

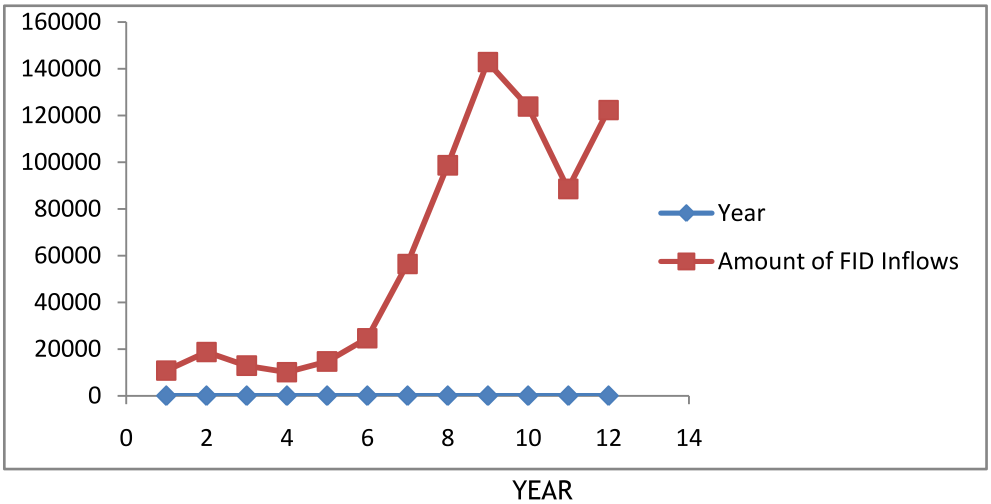

Table 2 Results of the Trend Analysis of the Foreign Direct Investment Equity Inflows in India

Model	a	b	S.E.of b	t-value	R2	$\overline{R2}$
Simple Linear model	-2.57	12518.92	2194.38	5.705	0.765	0.741
Semi log model	-525.74	0.267	79.046	6.785	0.822	0.804
Significant at 1 per cent level						

In the case of Globalization on Equity Inflow (GEI) of the ‘b’ value in the simple linear regression is 12518 and this means that the foreign direct Investment Increase by the 12518 crores of Indian Rupees per year. This increase is statistically significant at one per cent level.

The ‘b’ value in the semi- log model suggested that the foreign direct investment increase at the rate 26.7 per cent per year. This co-efficient is also significant at one per cent level. In this simple linear model, 76 per cent of variations in the dependent variable and in the semi-log model 82.2 per cent of the variations in the dependent variable have been explained by the independent variable.

Table 3 Foreign Direct Investment inflows Share of Top Investing Countries (in Rs. Crores US$ Million Dollars)

Ranks	Country	2009-10 (April March)	2010-11 (April March)	2011-12 (April Jan)	Cumulative Inflows April -2000 Jan -12	Percentage with inflows
1	Mauritius	49,633 (10,376)	31,855 (6,987)	41,621 (8,919)	284,381 (63,146)	39%
2	Singapore	11,295 (2,379)	7,730 (1,705)	20,020 (4,307)	72,896 (16,203)	10%
3	Japan	5,670 (1,183)	7,063 (1,562)	13,007 (2,754)	56,769 (12,095)	8%
4	U.S.A	9,230 (1,943)	5,353 (1,170)	4,338 (913)	46,880 (10,362)	6%
5	United kingdom	3,094 (657)	3,434 (755)	12,484 (2,750)	41,916 (9,389)	6%
6	Netherlands	4,283 (899)	5,501 (1,213)	5,487 (1,167)	31,114 (6,867)	4%
7	Cyprus	7,728 (1,627)	4,171 (913)	6,378 (1,318)	28,326 (6,130)	4%
8	Germany	2,980 (626)	908 (200)	6,672 (1,465)	20,048 (4,464)	3%
9	France	1,437 (303)	3,349 (734)	2,180 (475)	12,447 (2,739)	2%
10	UAE	3,017 (629)	1,569 (341)	1,614 (330)	10,206 (2,220)	1%
Total	FDI Inflows	123,120 (25,834)	88,520 (19.427)	122,307 (26,192)	723,367 (160,094	-

Sources: RBI, Bulletin, April 2000 - January 2012.

FDI inflows show a skewed pattern in terms of their originating destinations. Between 2000 and 2012 invest-ments of 10 countries accounted for 80 per cent of FDI, the main investor countries being Mauritius,the Singapore, Japan, U.S.A, and the United kingdom, the Nether-lands and Cyprus the Germany. According to the data relating to the period 2000-2012, Mauritius has been the biggest source of FDI. This could be because of common cultural patterns in both the counties and also close political and bilateral ties. Mauritius has low rates of taxation and an agreement with India on double tax avoidance regime. For these reasons, some MNCs set up companies in Mauritius before going to India investment from Mauritius take place both in the public and private sector.

Table 4 Sector- wise Highest FDI Equity Inflows

Ranks	Country	2009-10 (April March)	2010-11 (April March)	2011-12 (April- Jan)	Cumulative Inflows (April - 2000 Jan -12)	Percentage with inflows
1	Service sector	19945 (4176)	15053 (3296)	22771 (4836)	143878 (31971)	20
2	Computer software /Hardware	12270 (872)	7542 (1665)	8984 (1992)	57050 (12547)	8
3	Telecommunication	4127 (2539)	3551 (780)	3312 (698)	49626 (11107	7
4	Housing/ Real estate	14027 (2935)	5600 (1227)	2750 (591)	49025 (10973)	7
5	Construction activity	13469 (2852)	4979 (1103)	10859 (2230)	49440 (10867)	7
6	Power	1006 (213)	961 (209)	14482 (3208)	42745 (9170)	6
7	Automobile Industries	6138 (1272)	5796 (1272)	7262 (1569)	32798 (7215)	5
8	Metallurgical Industries	5893 (1236)	5864 (1299)	2916 (635)	29354 (6470)	4
9	Petroleum	1999 (420)	5023 (1098)	7700 (1655)	26287 (5909)	4
10	Chemicals	1297 (266)	2543 (556)	951 (202)	14612 (3339)	2

Sources: RBI, Bulletin, April 2000 - January 2012.

Apart from Mauritius, the US is another important investor in India. It contributed about 17 per cent of total FDI between 2000-2012 The reason could be that both countries, have close relations, The US is the largest trading partner of India and a broad Indian community lives in it . Far behind the (Singapore, Japan (8 percent of FDI inflows received by India) U.S.A (6 per cent) U.K (6 per cent are significan investors. Netherlands follows (4 per cent, then Cyprus (4 per cent then Germany (3 per cent) France (2 per cent) France 2 per cent U.A.E (1 per cent) . The European Union's FDI is higher than that from the US. FDI from Netherlands United Kingdom, Germany and France registered between 2000-and 2012 accounts for 15 per cent of the table -3.

The investment Inflows of FDI in India during 2000 to 2012 among the top 10 sector, services sector (both finance and non finance) received 20 per cent of FDI in these years. In absolute term, it was RS. 143,878 crores. Secondly computer software and hardware received 8 per cent of FDI. i.e.Rs 57,050 crores followed by Telecommunications 7 per cent and Housing/ Real Estate 7 per cent and construction sectors (7 per cent which occupied the third and fourth and fifth positions in attracting the FDI accounting for Rs, 49,626 crores and Rs. 49,025 crores and Rs 49,440 crores respectively while petroleum and Natural Gas and chemicals sectors into India. Services sector, computer software telecommunication sectors. Observing major portion of FDI investment 36 per cent, and of the sectors creating optimum level of income and employment in the country. Liberalization of FDI policy frame work impacted a lot towards positive trends in FDI flows in the country.

Conclusion

The globalization on Foreign Direct Investment regime to influence in a larger could be expected foreign direct investment will there fore assume a very important role in financing the knowledge economy the 21st century. It is hence a national priority to remove the gaps between approvals and actual flow of foreign direct investment. At the same time attention to all the factors affecting foreign direct investment is necessary. In short, this means accelerating India's integration with the global economy. When that happens, foreign direct investment will play the same role in India that it has played in USA: a productivity multiplier that also finances the long term current account deficit. Since foreign direct investment is mostly in the form of physical investment investor would prefer the markets with better infrastructure the attractiveness of the host market also affects the foreign direct investment positively relationship in India.

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