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COUNTRY-WISE FOREIGN DIRECT INVESTMENT INFLOWS INTO INDIA – AN OVERVIEW

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INTRODUCTION

The importance of capital has increased by manifold times after most of the countries of the world had liberalized their economic policies. The developing countries require capital for production, expansion and modernizing their industries, while the developed countries require capital for research and development, innovations and widening the scope of their existing industries.

The last decade of 20th century witnessed the global economies shedding their conservatism. The third world countries were prepared to accept new commodities for consumption and their labour were prepared to move from one country to another in search of better environment opportunities. The advanced western economies particularly those in G8 and G16 categories wanted to move their enterprise out of their source and start industries in the eastern developing economies. This resulted in greater opportunities for the western enterprise and more gainful employment for the eastern, third world economies.

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Relaxation in import, export policy, development of money and capital markets, improved infrastructure, liberal and transparent economic policy of the government resulted in growth of international capital flows particularly the foreign direct investment and foreign portfolio investment which were non-debt creating, non-inflationary and with very high growth possibility.

Economic development of number of a present day industrialized economies are assisted by foreign capital and it has played an important role in the early stages of industrialization of most of the advanced countries today. In the initial stage of development, domestic savings is not sufficient to meet the capital requirements, foreign capital helps by providing much needed resources for the development of the developing economy. There is a general view that foreign capital, if properly directed and utilised can assist the development of the developing countries. So developing countries are very keen and making all efforts to attract foreign capital for their rapid economic development. **Tamal Taru Roy (2006)** observed that some of the countries like Israel, Thailand, Hong Kong, South Africa, and Oman increased their share gradually during the period 1991-2005. It is also interesting to note that some of the new countries such as Hungary, Nepal, Virgin Islands, Tunisia, Yemen, Belorussia and Peru are also making significant investments in India.

FOREIGN DIRECT INVESTMENT IN INDIA

FDI represents a long-term commitment to the host country and contributes significantly to Gross Fixed Capital Formation in developing countries. FDI has several advantages over other types of capital flows, has greater stability and would not create obligations for the host country.

FDI has been widely seen as one of the most positive forces in the recent economic globalisation, with the supposed potential to transform productive structure in developing countries and bring about economic convergence across the different regions of the world. It has been one of the great belief that FDI can and will transform the world by bringing great change in the productive structure of the developing economies.

As a developing country, FDI continues to play an important role in India. It is an opportunity to make India a manufacturing hub for textile, automobiles, steel, metals and petroleum products for the world market. Foreign financial analysts have concluded that India provides maximum return on investments.

Macro-economic effects of FDI is connected with issues of domestic capital formation, balance of payments, and taking advantage of external markets for achieving faster growth, while the micro economic effects of FDI is connected with the issues of cost reduction, product quality improvement, making changes in industrial structure and developing global inter – firm linkages. In this context, it needs to be recognised that FDI is an aggregate entity, the sum total of the investments made by many diverse multinationals, each with its own corporate strategy.

The micro-economic effects of the investment made by one multinational may be quite different from that of another multinational even if the investments are made in the same industry. Also, what benefits the local economy will be able to reap from the investments depends among other factors, on the capabilities of the host country in regard to technology transfer and industrial restructuring.

Foreign Direct Investment allows an economy to grow at a much faster rate and the higher growth rate provides larger resources for social development, reduction of unemployment and better provision for education.

FOREIGN DIRECT INVESTMENT INFLOWS TO INDIA –

1991-1992 TO 2012-2013

(US $ million)

Years	FDI	Years	FDI
1991-92	129	2000-01	4029
1992-93	315	2001-02	6130
1993-94	586	2002-03	5035
1994-95	1314	2003-04	4322
1995-96	2144	2004-05	6051
1996-97	2821	2005-06	8961
1997-98	3557	2006-07	22,826
1998-99	2462	2007-08	34,362
1999-00	2155	2008-09	35,168
		2009-2010	37,763
		2010-2011 (P)	34847
		2011-2012(P)	46556
		2012-13 (P)	36860

Source: ***(i) RBI "s Bulletin March (from 1991 to 2012)***
(ii) (P) All figures are provisional .

The FDI inflows have shown an upward trend from 1991-92 to 1997-98, this was due to the embarking programmes of structural liberalisation and open-market reforms. The rise in inflows of FDI till 1997 was due to not only of the liberalisation policy but also due to the sharp expansion in the global scale of FDI outflows during 1990s. Another contributing factor may have been the recovery of the Latin American economies, which had begun to emerge from the Debt Crisis of the 1980s. The inflow of FDI has decreased during 1998- 2000. It was due to decline in industrial growth rate in the economy and also due to the result of the East Asian Financial Crisis. But in the next following year, foreign investment started to bounce back. During 2002-03 and 2003-04, there was fall in flow of foreign direct investment which was due to the impact of Global Recession on the Indian economy.

The value of FDI inflow has increased during the year 2005-06 to 2009-10. This increase was due to the revised FDI Policy in March 2005, an important element of the policy was to allow FDI up to 100 per cent foreign equity under the automatic route in townships, housing, built-up infrastructure and construction-development projects. The year 2005 also witnessed the enactment of the Special Economic Zones Act, which entailed a lot of construction and township development that came into force in February 2006.

FDI inflows into India that had seen a robust growth in the FY from April 2011 March 2012, once again experienced a downturn last year due to uncertainties in the global economy, as also economic slowdown in India on the one hand and the lack of political consensus on FDI related matters on the other.

COUNTRY-WISE FOREIGN DIRECT INVESTMENT INFLOWS TO INDIA -1991 TO 2014

India had introduced the new economic policy in 1991 and has been an important destination of FDI by many countries. Due to liberal economic policy, favourable outlook by state governments, improved infrastructure and freedom to import and export, many countries have preferred to invest in India.

The strong macro- economic fundamentals, growing size of the economy and improving investment climate has attracted global corporations to invest in India. A major outcome of the economic reform process aimed at opening up the economy and embracing globalisation has led to tremendous increase in Foreign Direct Investment inflows into India.

SELECTED COUNTRY-WISE FDI INFLOWS TO INDIA DURING 1991-92 TO 2013-14

(US $million)

Countries/ Years	Mauritius	USA	Singapore	UK	Netherland	Japan	Germany	France	Switzerland
1991-92	-	81.91	515	14.15	24.65	23.23	18.42	8.52	325
1992-93	-	475.1	38	45.4	37.34	235.42	33.28	11.43	93
1993-94	39.51	1100.96	37	198.04	102.29	81.9	55.95	41.05	45
1994-95	170.44	1111.77	184	414.08	65.97	127.78	181.47	28.6	77
1995-96	557.84	2175.94	150	532.35	298.1	467.08	413.17	129.66	39
1996-97	658.81	2838.4	100	430.34	296.01	420.08	434.1	471.86	53.08
1997-98	2871.15	3736.23	100.01	1236.45	239.69	524.88	593.57	196.43	93
1998-99	767.19	863.16	72	775.65	120.26	310.86	206.89	124.45	97.1
1999-00	883.3	830.37	44.23	688.2	146.84	370.4	265.46	336.46	86.95
2000-01	1609.7	933.46	621	91.51	0.99	184.14	132.12	44.97	75
2001-02	613.01	1043.01	1000.16	1058.42	782.77	155.83	125.84	144.07	82
2002-03	788	319	38	340	176	412	144	112	93
2003-04	567	360	37	167	489	78	81	38	45

2004-05	1129	668	184	101	267	126	145	117	77
2005-06	2570	502	275	266	76	208	303	18	96
2006-07	6363	856	578	1878	644	85	120	117	42
2007-08	11095.9	1089.1	3072.7	1175.9	694.9	815.2	513.6	145.2	300.5
2008-09	11229.3	1802	3454.1	864	883.2	404.8	629.2	466.6	358.5
2009-2010	10375.6	1943.5	2379.2	657.4	899	1183.4	626.1	302.5	901.68
2010-11	6987	1170	1705	755	1213	1562	200	734	133
2011-12	9942	1115	5257	9257	1409	2972	1622	663	211
2012-13	9497	557	2308	1080	1856	2237	860	646	268
2013-14 (Apr-Dec)	3678	623	3205	3148	1596	810	658	267	278

Source: Calculated by the researcher on the basis of data compiled from various issues of SIA – Newsletters, DIPP, (Apr1991-March 2013).

Actually, Mauritius based investments are nothing but US investments. They are routed through Mauritius because of the Double Tax Avoidance Agreement that India has with that country. According to the agreement, any foreign investor has the option of paying tax either in India or in Mauritius. Since the tax rates prevailing in Mauritius are among the lowest in the world, many multinational corporations prefer to route their investments to India though Mauritius. Mauritius has low rate of taxation and an agreement with India on double tax avoidance regime. For these reasons, some MNCs set up companies in Mauritius before investing in India.

A large number of foreign institutional investors (FIIs) who trade in Indian stock markets where operate from Mauritius. According to DTAA between India and

Mauritius, capital gains arising from the sale of shares are taxable in the country of residence of the shareholder and not in the country of residence of the company whose shares have been sold. Therefore, a company resident in Mauritius selling shares of an Indian company will not pay tax in India. Since there is no capital gain tax in Mauritius, the gain will escape tax altogether. **Mohd. Shamim Ansari &Mukesh Ranga (2010)** found that various studies have projected India among the top 5 favoured destination for FDI. India's 83 per cent of cumulative FDI is contributed by nine countries while remaining 17 per cent by rest of the world. Country-wise, FDI inflows to India are dominated by Mauritius followed by the Singapore, United States and UK. Countries like Singapore, USA, and UK etc. invest in India mainly in service, power, telecommunication, fuels, electric equipments, food processing sector.

More interestingly, from the period 2000-01, Singapore replaces US and played a significant role in India. In fact, the Comprehensive Economic Cooperation Agreement (CECA) with Singapore, Free Trade Agreements (FTAs) with Singapore and Thailand and by becoming the member of ASEAN Regional Forum India has made its presence felt in East Asian Region. India, is trying hard so that the largest Free Trade Area, even larger than the existing EU-NAFTA combined area, could come up in East Asian Region. This suggested largest FTA would make the bilateral trade to the new heights in the coming years.

ATTRACTING LARGER FDI INFLOWS TO INDIA- PROBLEMS AND CHALLENGES

Both India and China are competing to get a larger share in world trade and investment. Although China continues to be India's major competitor, many new economies like Indonesia, Vietnam and Philippines have emerged as strong competitors. India's main competitive advantage lies in its lower labor costs and remunerative domestic markets. But India is fast losing its competitive advantage to countries like Indonesia and Vietnam as investors are shifting FDI away from known growth engines towards these new emerging economies. No doubt Indian government has implemented several reform measures in order to attract greater FDI but there are several studies which have highlighted India's weak spots. One such report is "Doing Business 2014", an annual report co-published by the World Bank and International Finance Corporation that brings out the differences in business regulations and their implementation across economies. This study covers 189 countries, ranking them on 11 indicators. These indicators reflect the quality of the investment climate in a country and better performance on these indicators is frequently associated with greater inflows of FDI.

India has strong industrial base, pool of talented and skilled workers and a well developed financial sector. The policy makers and the government have to take steps to invite more number of FDI inflows into India in future to compete with other developing countries. At the same time, the policies should protect and promote the development of the domestic industries.

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