Sector-Wise Foreign Direct Investment Inflows Into India

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Abstract
FDI has given a major boost to global integration process, by linking capital and labour markets and by raising wages and capital productivity in recipient countries. With newly liberalised trade and investment regimes and new technologies lowering transport and communication costs, multinational firms have evolved increasingly global strategies to capture the large savings arising from specialisation and dispersion of activities. World network of multiple linkages has developed intra-firm trade across national and their affiliates in developing as well as developed countries.

Keywords: Foreign Direct Investment (FDI), Foreign Capital, Home country, Host country, Sectors

Introduction
Capital is the engine of economic development and this statement is gaining importance in the recent times. Economic developments of a number of present day industrialized economies are assisted by foreign capital and it played an important role in the early stages of industrialization of most of the advanced countries today. It plays an important role in the developing economy also. 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 economy.

FDI has grown considerably in its importance in Indian economy. FDI provides mutual help to both home country and host country. For the home country, it is an investment generating income and a source of spreading business operations globally. For the host country, it is a source of capital for the development of infrastructure, which is essential for economic development. So, FDI has assumed importance both in developing and in developed economies.

India has been a major recipient of FDI Inflows in the majority of sectors. There has been an unnerving upsurge in the economic development of the country. In the post liberalisation era, India is known to have attracted a large amount of Foreign Direct Investment. Foreign direct investment in India is allowed freely in most of the sectors, except a few, where specific guidelines are given for foreign direct investment beyond a limit.

After liberalization its role has changed significantly. Progressive liberalization of FDI policy has strengthened investor confidence with opening up of new sectors like integrated township, tea plantation etc. India’s capacity as a host nation in attracting FDI has been enhanced during the post reforms period. Earlier the amount of FDI was low conforming to some selected sectors, but now the inflow of FDI has grown tremendously and almost in all the sectors of the economy. Revision of FDI policy during 2005 opened the few sectors for the foreign investors to start their business.

Indian sectors attracting highest FDI inflows are service, electrical equipments, transportation industries, telecommunication, fuel and food processing industries. The Indian industries attracting sizable amount of FDI flows are cement and gypsum products, metallurgical industries, chemicals, and drugs and pharmaceuticals. The Indian government’s policy regime and a robust business environment have ensured that foreign capital keep flowing into the country. The government has taken many initiatives in recent years such as relaxing FDI norms in 2013, in sectors such as defense, PSU oil refineries, telecom, power exchanges and stock exchanges, among others. During the year, big global brands such as Tesco, Singapore Airlines and Etihad lined up to invest in India as the government opened more sectors to foreign investment.

The Foreign Direct Investment inflows to different sectors during the period 1991 to 2014 are shown in the below table;
The sector wise analysis of FDI inflow into India reveals that maximum FDI has taken place in the service sector including financial and non-financial services, telecommunication, information technology, hotel and tourism.

Since the onset of liberalisation, the country experienced a high jump in the inflows of FDI in service sector because of the tremendous growth potential that it possesses. This sector has ranked among the top ten sectors attracting FDI since 1991. Service sector comprising financial and non financial banking and insurance, outsourcing and research & development services ranked second during 1991-99 by attracting US $1213.66 million of total FDI inflows.

Services sector puts the economy on a proper glide path. It is among the main drivers of sustained economic growth and development by contributing significant share in GDP. There is a continuous increasing trend of FDI inflows in services sector with a steep rise in the inflows from 2005 onwards. Service sector received FDI inflows of US$ 41,111.80 million during the period 2000-2014.

Mauritius is the top nation to invest in service sector followed by UK and Singapore. The leading Indian companies which received FDI inflows in services sector are Cairn (I) Ltd, DSP Merrill Lynch Ltd, AAA Global Ventures Pvt. Ltd, Kappa Industries Ltd, Citi Financial Consumer Finance (I) Ltd, Blue Dart Express Ltd, Vyasa Bank Ltd, CRISIL Ltd, Associates India Holding Co. Pvt. Ltd and Housing Development Finance Corp. Ltd.
The computer hardware and software industry which has witnessed a high growth during 2005-2014. Investment on Computer software and hardware sector was not calculated independently till the year 2003 and was under the head ‘electrical’. It has been taken as a separate industry since the year 2004. It accounted for major share to the order of US $ 13,470.81 million in the total FDI inflows for the period 2000-14. Establishment of 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 this sector in India.

Hardware industry which includes personal computers, servers, laptops and software industry which includes e-commerce activities enjoy the 100 percent FDI permission under the automatic route. High growth prospects in terms of increased consumption in India as well as increasing demand for IT exports are expected to lead to more FDI in this sector in coming years. Mauritius remained at the top among the investing countries in India in this Sector. Other major investing countries in this sector are USA and Singapore. The top Indian companies which received FDI inflows in this sector are Flex Solution Ltd, Tata Consultancy Services Ltd, Infrasoft Technologies Ltd, Mphasis BFL Ltd, Flex Solutions Ltd, Digital Global Soft Ltd, India Bulls Financials Services Pvt. Ltd, IFLEX Solutions Ltd and Unitech Reality Projects Ltd.

The telecommunication sector in India is growing at an astonishing pace. India has more than 125 million telephone networks, which is one of the largest communication networks across the globe. FDI in telecommunication sector has been rising tremendously recently. Telecom industry which comprises of telecommunication, cellular mobiles and basic telephone services has ranked among the top ten sectors in attracting FDI since 1991. For the period 1991-99 it added US $1211.64 million and for the period 2000-14 it added US $ 16634 million to the respective FDI inflows. The government of India has taken measures to ensure pro-active and positive policies to boost FDI to this sector. A number of telecom service providers are working in both the private and public sector.

Two most crucial causes behind the huge FDI inflows to telecom sector are the growing demand in India and the private sector participation in this sector. The limit to FDI in telecom was increased from 49 percent to 74 percent in the year 2005. Since India has one of the largest communication networks across the globe, even more FDI in this sector is expected to pour in future.

It was during the union budget of 2005 that the gates were opened for FDI in construction industry. Construction industry which has ranked among the top five sectors in attracting FDI since 2006, includes housing, commercial premises, hotels, resorts hospitals, educational institutions, recreational facilities and city & regional level infrastructure. FDI to this sector is permissible under automatic route.

The amount of FDI inflows to construction activities during 2000 to 2014 attracted US $ 23951.68 million. The construction activities sector shows a steep rise in FDI inflows from 2005 onwards. Major investment in construction activities is received from Mauritius. The top five Indian companies which received FDI inflows in this sector are W.S Electric Ltd, Carmen Builders & Construction Pvt. Ltd, Caitlin Builders & Developers Pvt. Ltd, W.S. Electric Ltd, and PVP Ventures Pvt. Ltd.

FDI inflows to automobile industry in India have been increasing at a fast pace and this sector has ranked among the top ten receivers of FDI inflows since the year 2000. During the period 2000 to 2014, it attracted US $ 11048.18 million in total FDI received. Hundred percent FDI is allowed in this sector and India is becoming a prime destination for many international players in the automobile industry who wish to set up their business in Asia. The basic advantage that India can provide are advanced technology, cost effectiveness, efficient manpower and above all the growing demand to the automobile producers.

Major investment to automobile industry has come from Japan, Italy, USA followed by Mauritius and Netherlands. Major Indian companies which received highest percentage of FDI inflows in automobile industry are Escorts Yamaha Motor Ltd, Yamaha Motors India Pvt. Ltd, Punjab Tractors Ltd, Yamaha Motor Escorts Ltd, Endurance Technologies P. Ltd, General Motors India Ltd, and Fiat India Automobile P. Ltd.

The power sector in India has attracted considerable FDI during the period 1991-99 which accounted for US $ 1093.32 million in total FDI inflows during this period. During the period 2000- 2014, it gained US $ 9386.59 million to the total FDI. The huge size of the market in this sector and high returns on investment are two important factors in boosting FDI inflows to power sector. 100 percent FDI is allowed under automatic route in almost all kinds of power generation except the atomic energy.

Investment potential in the power sector is huge due to the market size and returns on investment capital. Past few years have witnessed an outstanding growth in the power sector especially the sectors based on renewable sources of energy.

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FDI inflows to metallurgical industries have remained less noticeable after 1991. The share of this sector has not been high although it managed to place itself in the top ten recipients during 2000-2014. During the period 1991-99 this sector attracted just US $ 190.05 million of FDI inflows and in the period 2000-2014, the share rose marginally to US $ 8280.50 million. FDI in this sector can help to bring the latest technology but this sector could not garner much FDI due to the dominance of public sector.

India ranks among the top ten suppliers of aluminum and steel across the globe. The metallurgical industries in India are the biggest manufacturers of sponge iron across the world and they also produce around 35 million tones of steel each year. The major companies which received FDI inflows are Tata Steel, Nalco, SAIL, Sterlite, and Hindalco.

FDI inflows to petroleum and natural gas have started pouring since the year 2004. Since then the inflows to this sector have picked up in absolute sense and it has just managed to rank itself among the top ten although important initiatives have been taken by the Indian government to drive FDI inflows. Hundred percent FDI is permitted under automatic route and the growing demand for petroleum and natural gas necessitates more investment in this sector. During the period 2000-2014, this sector accounted US $ 6514.74 million in total FDI inflows.

Chemicals other than fertilizers have attracted a significant portion of FDI during 1980s and 1990s. During the period 1991-99 this sector received US $ 1196.17 million. However, it ranked number seven by receiving US $ 10120.09 million of FDI during 2000-2014. FDI inflows to Chemical industry in India has increased over the last few years due to the several incentives provided by the government of India. 100 per cent FDI is allowed in chemicals under the automatic route in India.

International companies having operations in chemicals industry in India are Dow Chemical, BASF, Du Pont and Bayer.

Trading sector received US $ 201.48 million of the total FDI inflows during 1991-1999 and it received the share of US $ 6854. 90million during 2000-2014. Trading sector shows a trailing investment pattern up to 2005 but there is an exponential rise in inflows from 2006 onwards. The top five Indian companies which received FDI inflows are Multi Commodity Exchanges of India Ltd, Anchor Electricals, Multi Commodity Exchanges of India Ltd, Metro Cash and Carry India Pvt. Ltd and Essilor India Pvt. Ltd.

The hotel and tourism industry is growing faster for the past few years, bringing in large revenues through foreign as well as domestic tourists in various parts of the country. 100 per cent FDI is permitted in Hotels and Tourism under the automatic route. FDI inflows to this industry have increased from US $ 91.13 million during 1991-1999 to US $ 7607.01 million during 2000-2014.

Outbound tourists from India have also increased in recent years, with more and more Indians undertaking foreign trips. Many International tour operators have started operations from India to tap the growing market of foreign tours from India. This has also led to increased Foreign Direct Investments (FDI) in the hotels and tourism industry in India.

During 1980s, Indian government adopted a liberal policy towards FDI, especially in high technology areas and exports and it was then that FDI friendly environment was created. Again a host of incentives, exemptions and relaxations in the degree of flexibility concerning foreign ownership adopted during 1990s gave a major boost to FDI inflows. The period after 1991 is termed as post liberalisation period during which not only the quantum of FDI to India escalated but the sectoral composition of FDI also underwent tremendous change. Revision of foreign investment policy during 2005 has invited FDI in few sectors like construction, housing & real estate. The period 2000-2014 reveals that India receives a significant share of FDI inflows compared to the period 1991-1999.

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