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## An Economic Study of FDI and Sector Wise FDI Inflow in India

**ABSTRACT ::**

*Foreign direct investment (FDI) plays an important role in India's growth dynamics. There are several examples of the benefits of FDI in India. FDI in the retail sector can expand markets by reducing transaction and transformation costs of business through adoption of advanced supply chain and benefit consumers, and suppliers (farmers). This also can result in net gains in employment at the aggregate level. This paper brings forth a few conceptual issues and analysis of qualitative information, data and stylized facts on these issues.*

**Key words-** India, Foreign direct investment, Retail, Supply chain, Farmers

### Introduction :

Though India stands today as the largest democracy, its administrative as well as the political set up has many flaws and shortcomings. The Indian system of administration and governance is impregnated with flaws like shortages of power, bureaucratic hassles, political uncertainty, and infrastructural deficiencies .In spite of all these political shortcomings, India is perceived to be one of the most lucrative grounds for investing, in the eyes of the wealthy European as well as American investors. This is the true reason why the researches made into the sector establishes more and more foreign investors coming to India and investing liberally into the various sectors of the Indian economy.

### What is meant by FDI::

Foreign Direct Investment, or FDI, is a type of investment that involves the injection of foreign funds into an enterprise that operates in a different country of origin from the investor.

Investors are granted management and voting rights if the level of ownership is greater than or equal to 10% of ordinary shares. Shares ownership amounting to less that the stated amount is termed portfolio investment and is not categorized as FDI.

This does not include foreign investments in stock markets. Instead, FDI refers more specifically to the investment of foreign assets into domestic goods and services. FDIs are generally favored over equity investments which tend to flow out of an economy at the first sign of trouble which leaves countries more susceptible to shocks in their money markets.

### Different Types of FDI::

There are generally two types of FDI, outward FDI and inward FDI. Any investment made by a country in other countries will account for outward FDI. Where as, all the FDIs invested by other countries in that country is called inward FDI.

These two forms account for the net FDI of the country. It could be either positive or negative. Both inward and outward FDIs are regulated by the governments of respective countries. The FDIs are categorized into vertical and horizontal based on how the subsidiary company works in par with the parent investor.

Vertical FDIs happen when a corporation owns some share of the foreign enterprise. The local enterprise could either be supplying the input or selling finished goods to the parent corporation. The subsidiary here helps the parent company to grow more.

When the MNCs kick off similar business operations in different countries it becomes horizontal Foreign Direct Investment. It is actually a cloning that is happening here. Both the countries enjoy the same share of growth.

**How FDI is done?**

A foreign country may carry out FDI in different ways depending on the requirement. An investment made by a country can be regarded as FDI is the company acquires 10% of the voting shares of the domestic company.

This could be achieved by incorporating an existing subsidiary or a wholly owned company. Or it could be done by acquiring majority of shares of an associated company.

Some companies go for a merger or acquisition of a completely different company. A few others happen by enrolling in an equity joint venture with other investors or companies. Overall the aim of these is to grab a quick 10% voting power.

From positive and negative aspects FDI has its own advantages and disadvantages.

**Advantages:**

- Increase economic growth by dealing with different international products
- 1 million (10 lakh) employment will create in three years - UPA Government
- Billion dollars will be invested in Indian market
- Spread import and export business in different countries
- Agriculture related people will get good price of their goods

**Disadvantages:**

- Will affect 50 million merchants in India
- Profit distribution, investment ratios are not fixed
- An economically backward class person suffers from price raise
- Retailer faces loss in business
- Market places are situated too far which increases traveling expenses
- Workers safety and policies are not mentioned clearly
- Inflation may be increased
- Again India become slaves because of FDI in retail sector

Sector-Wise FDI Inflows from April 2000 to January 2012

| S.No | Sector | Amount of FDI Inflows | | %age with total FDI Inflows (+) |
|---|---|---|---|---|
| | | (In Rs crore) | (In US$ million) | |
| 1 | SERVICES SECTOR | 143878.44 | 31970.85 | 19.99 |
| 2 | TELECOMMUNICATIONS | 57049.95 | 12546.54 | 7.84 |
| 3 | COMPUTER SOFTWARE & HARDWARE | 49626.45 | 11106.5 | 6.94 |
| 4 | HOUSING & REAL ESTATE(INCLUDING CINEPLEX,MULTIPLEX, INTEGRATED TOWNSHIPS & COMMERCIAL COMPLEXES ETC.) | 49024.58 | 10972.67 | 6.86 |

| | | | | |
|---|---|---|---|---|
| 5 | CONSTRUCTION ACTIVITIES | 49440.18 | 10867.24 | 6.79 |
| 6 | DRUGS & PHARMACEUTICALS | 42745.26 | 9170.24 | 5.73 |
| 7 | POWER | 32798.25 | 7214.83 | 4.51 |
| 8 | AUTOMOBILE INDUSTRY | 29354.31 | 6469.53 | 4.04 |
| 9 | METALLURGICAL INDUSTRIES | 26287.48 | 5909.42 | 3.69 |
| 10 | PETROLEUM & NATURAL GAS | 14611.84 | 3338.75 | 2.09 |
| 11 | CHEMICALS (OTHER THAN FERTILIZERS) | 14703.35 | 3244.93 | 2.03 |
| 12 | HOTEL & TOURISM | 14770.58 | 3229.48 | 2.02 |
| 13 | TRADING | 14131.09 | 3126.53 | 1.95 |
| 14 | ELECTRICAL EQUIPMENTS | 12902.14 | 2844.75 | 1.78 |
| 15 | INFORMATION & BROADCASTING (INCLUDING PRINT MEDIA) | 12062.2 | 2632.88 | 1.65 |
| 16 | CEMENT AND GYPSUM PRODUCTS | 11324.88 | 2535.43 | 1.58 |
| 17 | MISCELLANEOUS MECHANICAL & ENGINEERING INDUSTRIES | 9787.16 | 2180.26 | 1.36 |
| 18 | CONSULTANCY SERVICES | 8772.22 | 1924.54 | 1.2 |
| 19 | INDUSTRIAL MACHINERY | 7590.94 | 1664.26 | 1.04 |
| 20 | PORTS | 6717.37 | 1635.08 | 1.02 |
| 21 | AGRICULTURE SERVICES | 6912.48 | 1445.37 | 0.9 |
| 22 | FOOD PROCESSING INDUSTRIES | 6324.11 | 1376.99 | 0.86 |
| 23 | NON-CONVENTIONAL ENERGY | 6142.37 | 1324.22 | 0.83 |
| 24 | HOSPITAL & DIAGNOSTIC CENTRES | 5252.56 | 1183.04 | 0.74 |
| 25 | ELECTRONICS | 5214.6 | 1151.07 | 0.72 |
| 26 | TEXTILES (INCLUDING DYED,PRINTED) | 5036.27 | 1104.54 | 0.69 |
| 27 | SEA TRANSPORT | 4992.35 | 1100.78 | 0.69 |
| 28 | FERMENTATION INDUSTRIES | 4480.65 | 1022.15 | 0.64 |
| 29 | MINING | 4042.33 | 937.9 | 0.59 |
| 30 | PAPER AND PULP (INCLUDING PAPER PRODUCTS) | 3554.22 | 764 | 0.48 |
| 31 | PRIME MOVER (OTHER THAN ELECTRICAL GENERATORS) | 2801.95 | 599.13 | 0.37 |
| 32 | MEDICAL AND SURGICAL APPLIANCES | 2421.14 | 514.08 | 0.32 |
| 33 | CERAMICS | 2171.84 | 503.79 | 0.31 |
| 34 | EDUCATION | 2306.13 | 491.99 | 0.31 |
| 35 | RUBBER GOODS | 2124.88 | 454.47 | 0.28 |
| 36 | AIR TRANSPORT (INCLUDING AIR FREIGHT) | 1924.46 | 431.2 | 0.27 |
| 37 | MACHINE TOOLS | 1950.99 | 428.94 | 0.27 |

| | | | | |
|---|---|---|---|---|
| 38 | SOAPS, COSMETICS & TOILET PREPARATIONS | 1934 | 411.34 | 0.26 |
| 39 | DIAMOND,GOLD ORNAMENTS | 1505.37 | 334.31 | 0.21 |
| 40 | VEGETABLE OILS AND VANASPATI | 1300.77 | 276.56 | 0.17 |
| 41 | FERTILIZERS | 1196.78 | 255.35 | 0.16 |
| 42 | PRINTING OF BOOKS (INCLUDING LITHO PRINTING INDUSTRY) | 1110.39 | 244.28 | 0.15 |
| 43 | RAILWAY RELATED COMPONENTS | 1058.18 | 234.76 | 0.15 |
| 44 | COMMERCIAL, OFFICE & HOUSEHOLD EQUIPMENTS | 1026.7 | 225.85 | 0.14 |
| 45 | AGRICULTURAL MACHINERY | 903.7 | 200.32 | 0.13 |
| 46 | GLASS | 806 | 176.2 | 0.11 |
| 47 | EARTH-MOVING MACHINERY | 728.9 | 167.33 | 0.1 |
| 48 | TEA AND COFFEE (PROCESSING & WAREHOUSING COFFEE & RUBBER) | 451.11 | 100.26 | 0.06 |
| 49 | PHOTOGRAPHIC RAW FILM AND PAPER | 269.26 | 66.54 | 0.04 |
| 50 | INDUSTRIAL INSTRUMENTS | 304.26 | 65.95 | 0.04 |
| 51 | LEATHER,LEATHER GOODS AND PICKERS | 267.9 | 59.6 | 0.04 |
| 52 | RETAIL TRADING (SINGLE BRAND) | 204.07 | 44.45 | 0.03 |
| 53 | BOILERS AND STEAM GENERATING PLANTS | 201.86 | 41.77 | 0.03 |
| 54 | SUGAR | 174.64 | 39.56 | 0.02 |
| 55 | TIMBER PRODUCTS | 173.56 | 36.17 | 0.02 |
| 56 | COAL PRODUCTION | 103.11 | 24.78 | 0.02 |
| 57 | SCIENTIFIC INSTRUMENTS | 96.78 | 21.21 | 0.01 |
| 58 | DYE-STUFFS | 84.86 | 19 | 0.01 |
| 59 | GLUE AND GELATIN | 70.56 | 14.55 | 0.01 |
| 60 | DEFENCE INDUSTRIES | 17.68 | 3.72 | 0 |
| 61 | COIR | 9.56 | 2.02 | 0 |
| 62 | MATHEMATICAL,SURVEYING AND DRAWING INSTRUMENTS | 5.05 | 1.27 | 0 |
| 63 | MISCELLANEOUS INDUSTRIES | 33596.67 | 7487.61 | 4.68 |
| SUB. TOTAL | | 722833.7 | 159973.12 | |
| 64 | RBI'S- NRI SCHEMES (2000-2002) | 533.06 | 121.33 | - |
| | **GRAND TOTAL** | 723366.76 | 160094.45 | - |

The FDI in Automobile Industry has experienced huge growth in the past few years. The increase in the demand for cars and other vehicles is powered by the increase in the levels of disposable income in India. The options have increased with quality products from foreign car manufacturers. The introduction of tailor made finance schemes, easy repayment schemes has also helped the growth of the automobile sector. For the past few years the Indian Pharmaceutical Industry is performing very well. The varied functions such as contract research and manufacturing, clinical research, research and development pertaining to vaccines are the strengths of the Pharma Industry in India. Multinational pharmaceutical corporations outsource these activities and help the growth of the sector. The Indian Pharmaceutical Industry has been experiencing a vast inflow of FDI.

The FDI inflow in the Cement Industry in India has increased with some of the Indian cement giants merging with major cement manufacturers in the world such Holcim, Heidelberg, Italcementi, Lafarge, etc. The FDI in Semiconductor sector in India were crucial for the development of the IT and the ITES sector in India. Electronic hardware is the major component of several industries such as information technology, telecommunication, automobiles, electronic appliances and special medical equipments.

**Conclusions:**

Indian economy has reached in the orbit of high rate of economic growth. She is being widely acclaimed and recognized as an emerging global economic power. The rate of growth recorded during the period 1950-51 to 2011-12 clearly showed a tendency of steady upward trend. However, the decade of eighties emerged as a beginning of the high rate of economic growth or at least a dramatic departure from the past growth performance. This tendency had continued in the 1990s and further growth stimulus has occurred in the early 21st century. The structural change based on sect oral income shares 15showed a rapid economic transformation of the Indian economy from predominantly agrarian to the service oriented. However, the labor force structure show resilience of the primary sector which employ yet largest work force. Transformation of rural work force to non-agricultural economic activities require huge investment both in the activities where such labour force can be deployed along with imparting necessary skills for enabling such work force capable. Policy endeavour of the government of India is to attract foreign investment for the removal of such constraints along with making domestic agents of production to become more competitive and efficient so that scarce resources can be used to achieve high growth rate. FDI inflows have been increased in the post-reform period and India now seems to be quite attractive place for such kind of investments. In quantitative terms, India's global share of FDI is still very low. However, the FDI still is shying away from the most important sectors and regions where it is direly needed. Since the employment elasticity in the agriculture and industrial sector has gone down in the post-reform period, creation of employment opportunities will be a gigantic task for the policy makers. FDI has come in the most capital intensive sectors, therefore, the desired employment opportunities could not be created especially for the manual and the semi skilled labour. High skilled labour gained substantially. That is why high growth is called urban centric and thus has created a wedge between the rural and urban economy. There is urgent need to fill this void. Policy making process has matured in the democratic Indian polity since the independence. It is thus expected that the growing problems will receive mature response and policy will be articulated in such a manner to use FDI the way China has used to enhance economic growth while taking more and more investment to industrialize the rural sector of the Indian economy.

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