Why the Global Meltdown not affected FDI segment in India

*** Dr. K.S.S. Rama Raju**

ABSTRACT

For the developing economies, FDI inflows play a catalyst role in accelerating the pace of Industrial development. The expansion of international investments facilitated by the almost Universal Liberalization has resulted in a substantial increase in their global products, employment generation and trade. The Indian Government made several reforms in the economic policy of the country in the early 1990s. This helped in the liberalization and deregulation of the Indian economy and the country' markets are opened to foreign direct investment India's share in global FDI has marginally increased from 0.1 percent in 1990 to 0.8 percent

in the year 2004 with average annual growth rate by US $ 2.3 billion a year. In the earlier years of the present decade, FDI inflows growth rate has mixed trend. Year 2004-05 recorded ***plus*** *48 percent growth rate, 70 percent in 2005-06, 65 percent in 2007-08 and even in recession period 2008-09, the growth rate is 11 percent. Negative growth rate not recorded in India which is significant when compared to many other countries with negative growth rate.*

With this background the objective of this study is to provide an analytical framework related to FDI inflows in India during 1991-2004, boom period from 2004-05 to 2007-08 with comparative analysis of the year 2008-09(recession prone). Paper also intends to focus to find out the countries that has maximum share in FDI inflows.

* Professor and Head of the Department, School of Management Studies, M.V.G.R.College of Engineering (Accredited by NBA & NAAC), Vizianagaram 535 005, Andhra Pradesh
Email : kssramaraju@yahoo.co.in Mobile : + 91 9441156272

FDI inflows in the present decade

Sl.no	Financial year	FIPB route/RBIs Automatic routeUS $ million	%age growth Over previous year
1	1991-2000 (from August 91 to March 2000)	15,483	
2	2000-01	2,339	
3	2001-02	3,904	+ 67 %
4	2002-03	2,574	- 34%
5	2003-04	2,197	- 15 %
6	2004-05	3,250	+ 48 %
7	2005-06	5,540	+ 70 %
8	2006-07	15,585	+ 281 %
9	2007-08	24,575	+ 65 %
10	2008-09	27,307	+ 11 %
11	2009-10(for April 09)	2,339	-
	TOTAL	89,610	

The Union Cabinet approval on 10-9-2009 to the setting up of "Invest India" for promoting FDI into the country is deserved to special mention now. The proposed company would be a joint venture between the Centre, FICCI and State Governments. Now the promotion of FDI is a more focused, comprehensive and structured manner.

Introduction

FDI refers to investment in a foreign country where the investor retains control over the investment. It typically takes the form of starting a subsidiary, acquiring a stake in existing firm or starting a joint venture in the foreign country. For the developing economics FDI inflows play a catalyst role in the process of industrial development and its pace. FDI has three components – equity capital, reinvested earnings(not included in India) and intra company loans. The expansion of international investments facilitated by the almost universal liberalization has resulted in a substantial increase in their global production, employment generation and trade. Actually it is not confined to developing countries, the experience of the world showed that nearly every developed country has had the assistance of foreign finance to supplement domestic meager savings during the early stages of its development. UK borrowed from Holland in 17th and 18th centuries and in turn came to lend the most of the world nations in 19th and 20th centuries. The US, richest in the world now, borrowed heavily in the 19th century and became the major lender of the 20th century. Foreign capital flows are mainly beneficial to both the home country and the host country. For home country, it is generating income through expanding business activities globally and in the host country it promotes production activities, boosts domestic exports and finally lead to long run economic growth. In broader sense, the main sources of flow of foreign capital in India are : 1) FDI 2) Foreign Collaboration 3) Inter-Governmental loans and grants 4) Loans from International Institutions and 5) NRI investments. It may be observed that all the services of foreign capital except FDI are not sustainable and erratic in nature. Therefore, FDI is superior to other forms of foreign capital and it generally guided by the long term interests.

Regulatory Framework for FDI in India - a brief

In the early periods of independence, Govt. of India has cautious promotion strategy and restrictive nature and was geared up towards import substitution measures and in 100 percent export promotion measures, where the major emphasis was placed on technology transfer and not on investment. This approach continued for few decades. A real thrust is said to begun with the announcement of LPG policy on 24th July 1991 by Govt. of India. Market oriented economic reforms have started to reorient economy global competition by reducing trade barriers and gradually opening up its capital account which led India to increasingly become a favourable destination for foreign investors. This has provided a fairly liberalized policy framework to induce FDI in India, which were competent with those in several other Asian countries. Few of them are :

1994	Govt. announced its intention to allow foreign participation in telephone service networking
1996	Foreign participation upto 74 percent in categories of Industries
1997	List of guidelines brought for those which are not yet covered under automate approval route
1999-2000	Budget brought several measures, for instance, automatic clearance for foreign participation within 30 days, creation of Foreign Investment Implementation Authority(FIIA) and allowed NRIs to invest upto 100 percent for all items except those reserved for SSI sector.
2000-2001	Budget further liberalized by announcing that all FDIs permitted under automate approval route except a small list. In e-commerce-FDI is permitted upto 100 percent. The ceiling for FDI in oil refining has been extended to 100 percent, 26 percent for insurance sector and 100 percent on telecom sector.
November 2001	Several SEZs are planned to set up to boost the foreign investors' confidence. Major policies to attract FDI through automatic route for 100 foreign equity in NBFC, airports, courier services, drugs and pharmaceuticals, hotels, tourism and 74 percent in public sector banks.
July 2002	100 percent FDI in tea industry.
January 2004	These guidelines on equity capital on FDI has been further liberalized which includes 100 percent in printing scientific and technical magazines, periodicals, journals with the prior approval of the Government. 100 percent in petroleum products marketing, 100 percent in oil exploration, Natural gas/CNG subject to approval from government.

FDI flow to India in liberalized era

Until about the middle of the present decade, the FDI flow to India was very low, for example, in 2003 while China received nearly 10 percent of the global FDI inflows, India share was only 0.8 percent. It was only 0.4 percent in 2001 and 0.5 percent in 2002. This was because infrastructure facilities were poor. Several factors were costly and the policy and procedural environment in India in several respects was far from encouraging. However, from the year 2004-05 onwards, the FDI inflows are geared up with a greater speed.

With this background, in objective of this study is to provide an analytical framework related to FDI inflows in India during 1991-2007 with comparative analysis of year 2008-09.

Sector-wise FDI approvals and inflows(15 years period) (Cumulative from August 1991 to March 2005)

Sl.no	Sector	Percentage of	
		Approved amount	Total Inflow
1	Fuels (power and oil refinery)	27.9	9.8
2	Telecommunications	16.5	10.5
3	Transport Industry	8.4	11.4
4	Electrical Equipment (computer software and electronics)	7.6	15.1
5	Metallurgical Industries	6.2	1.9
6	Service Sector (Financial & Non-financial)	6.8	8.2
7	Chemicals	5.1	6.0
8	Food Processing Industries	3.8	4.2
9	Hotel & Tourism	2.0	0.9
10	Paper and pulp	1.3	1.2
11	Other Sectors	14.5	30.8
12	Total for all sectors	100	100

One important criticism of liberalization of foreign investment has been that foreign investment would take place mostly in non-priority sectors. However, the lion's share of foreign investment in India since the liberalizations has gone to priority sector. The above data indicates that the highest shares of FDI inflows have gone to data processing software and consultancy services, followed by pharmaceuticals and automobile industry.

Statistical Information about FDI inflows into India on Cumulatuive basis

S.No	Particulars	Amount in US $
1.	**Cumulative amount of FDI inflows since NIP 1991** (from August 1991 to April 2009)	108,863 million
2	**Cumulative amount of FDI inflows in the present decade** (from April 2000 to March 2009)	89,819 million
3	**Amount of FDI inflows during 2009-10** (for April 2009)	2,339 million
4	**Cumulative amount of FDI inflows** (updated up to April 2009 from April 2000)	92,158 million

It may be observed that major part of FDI inflows into India accounted after the year 2000. During the years 2000-01 to 2008-09, an amount of US $ 89,819 million FDI inflows took place by recording average annual inflows around US $ 10,000 million. However, April 09 inflows US $ 2,339 million is less than that of April 08 of US $ 3,749 million.

Sectors attracting highest FDI equity inflows:

(US$ in million)

Ranks	Sector	2006-07	2007-08	2008-09	2009-10 (for April – 2009)	Cumulative Inflows (April 2000 to April 2009)	% age to total Inflows
1.	SERVICES SECTOR (financial & non-financial)	4,664	6,615	6,116	655	19,829	**23 %**
2.	COMPUTER SOFTWARE & HARDWARE	2,614	1,410	1,677	66	9,020	**10 %**
3.	TELECOMMUNICATIONS (radio paging, cellular mobile, basic telephone services)	478	1,261	2,558	556	6,956	**8 %**

4.	HOUSING & REAL ESTATE	467	2,179	2,801	360	5,873	**7 %**
5.	CONSTRUCTION ACTIVITIES (including roads & highways)	985	1,743	2,028	136	5,327	**6 %**
6.	AUTOMOBILE INDUSTRY	276	675	1,152	46	3,435	**4 %**
7.	POWER	157	967	985	37	3,227	**4 %**
8.	METALLURGICAL INDUSTRIES	173	1,177	961	9	2,732	**3 %**
9.	PETROLEUM & NATURAL GAS	89	1,427	412	172	2,565	**3 %**
10.	CHEMICALS (other than fertilizers)	205	229	749	20	2,152	**3 %**

The above data reveals that half of FDI cumulative inflows for the above period went into service sector, computer software and hardware and telecommunications. Infrastructure industries like housing and construction activities have marginal share.

Share of top investing countries FDI equity inflows :

(US$ in million)

Ranks	Country	2006-07	2007-08	2008-09	2009-10 (for April – 2009)	Cumulative Inflows (April 2000 to April 2009)	% age to total Inflows (in terms of Rupees)
1.	MAURITIUS	6,363	11,096	11,208	1,462	38,305	42 %
2.	SINGAPORE	578	3,073	3,454	123	7,934	9 %
3.	U.S.A.	856	1,089	1,802	69	6,404	7 %
4.	U.K.	1,878	1,176	864	19	5,246	6 %
5.	NETHERLANDS	644	695	883	23	3,611	4 %
6.	JAPAN	85	815	405	163	2,694	3 %
7.	CYPRUS	58	834	1,287	218	2,491	3 %
8.	GERMANY	120	514	629	18	2,191	2 %
9.	FRANCE	117	145	467	1	1,229	1 %
10.	U.A.E.	260	258	257	28	948	1 %
TOTAL FDI INFLOWS *		15,726	24,579	27,309	2,339	92,158	-

Among the countries from whom the FDI equity inflows entering India, four countries, viz. Mauritius, Singapore, USA and UK have taken around 2/3rd share of total FDI. Mauritius has been taking lion's share of FDI inflows in India. Even in April 2009, it share is 62 percent which is highly appreciable

Statement on RBI's regional offices (with state covered) received FDI Equity inflows1 (from April 2000 to April 2009):

Ranks	RBI's - Regional Office2	State covered	Amount of FDI Inflows US$ in million	%agewith FDI inflows
1	MUMBAI	MAHARASHTRA, DADRA & NAGAR HAVELI, DAMAN & DIU	32,212.9	37.0 %
2	NEW DELHI	DELHI, PART OF UP AND HARYANA	13,237.3	15.0 %
3	BANGALORE	KARNATAKA	5,867.9	7.0 %
4	AHMEDABAD	GUJARAT	5,624.8	6.0 %
5	CHENNAI	TAMIL NADU, PONDICHERRY	4,761.7	6.0 %
6	HYDERABAD	ANDHRA PRADESH	3,495.4	4.0 %
7	KOLKATA	WEST BENGAL, SIKKIM, ANDAMAN & NICOBAR ISLANDS	1,277.7	1.0 %
8	JAIPUR	RAJASTHAN	438.6	1.0 %
9	CHANDIGARH	CHANDIGARH, PUNJAB, HARYANA, HIMACHAL PRADESH	384.2	0.5 %
10	PANAJI	GOA	253.3	0.3 %
11	KOCHI	KERALA, LAKSHADWEEP	213.3	0.3 %
12	BHOPAL	MADHYA PRADESH, CHATTISGARH	148.7	0.2 %
13	BHUBANESHWAR	ORISSA	97.4	0.1 %
14	GUWAHATI	ASSAM, ARUNACHAL PRADESH, MANIPUR, MEGHALAYA, MIZORAM, NAGALAND, TRIPURA	53.2	0.1 %
15	KANPUR	UTTAR PRADESH, UTTRANCHAL	16.4	0.0 %
16	PATNA	BIHAR, JHARKHAND	0.4	0.0 %
17	RBI'S REGIONS NOT INDICATED		18689.30	22.0 %
	TOTAL		**86,772.5**	**100 %**

When we focus state-wide FDI inflows, Maharastra, Delhi, Karnataka, Tamil Nadu, Gujrat, Andhra Pradesh states take share of 75 percent of total FDI of the country . Maharastra and Delhi have been taking leading share i.e. more than half of the FDI inflows.

FDI inflows in the present decade

Sl.no	Financial year	FIPB route/RBIs Automatic route US$ million	%age growthOver previous year
1	1991-2000 (from August 91 to March 2000)	15,483	
2	2000-01	2,339	
3	2001-02	3,904	+ 67 %
4	2002-03	2,574	- 34%
5	2003-04	2,197	- 15 %
6	2004-05	3,250	+ 48 %
7	2005-06	5,540	+ 70 %
8	2006-07	15,585	+ 281 %
9	2007-08	24,575	+ 65 %
10	2008-09	27,307	+ 11 %
11	2009-10(for April 09)	2,339	-
	TOTAL	89,610	

In the earlier years of the present decade, FDI inflows growth rate has mixed trend. Year 2004-05 recorded + 48 percent growth rate, 70 percent in 2005-06, 281 percent in 2006-07, 65 percent in 2007-08 and even in recession period 2008-09, the growth rate is 11 percent (– Ve growth rate not recorded is significance at this juncture)

Drawback in India Vs other nations

It is pointed out that one major drawback of Indian foreign investment policy is the lack of focus. For instance, on FDI there is no clear cut policy to attract investments in specific sectors or specified regions or even specific companies. Countries following such routes have been fairly successful in attracting FDI, such as China focusing on a particular region and decentralization has proved beneficial for countries like China and Malaysia. China improved its infrastructure and changed its labour laws for the southern coastal areas like Shanghai and Shenzhen. Now it is introducing incentives for cities like Wuhan and Changdu in the Hinterland that have been largely ignored in the past.

Bureaucratic hurdles need to be removed too. The implementation phase often proves to be toughest for foreign investors. Once these companies get their FIPB or RBI clearances, they still need to obtain between 41 and 61 clearances from various government departments, before they can start their projects. It understands that FIPB clearance is the easiest. It is when companies start dealing at district level with fire and labour inspectors that things turn sour. Comparing with China where once investment is cleared, a government official is entrusted with the task obtaining all other clearances from both central and provincial departments. Time required for starting a business is 41 days in China against 89 in India.

Global FDI down by more than 20 percent in 2008 due to global financial crisis.

The year 2008 marked the end of a growth cycle in global FDI with world wide flows down by more than 20 percent. Due to global financial crisis, the capacity of companies to invest has been weakened by reduced access to financial resources, both internally and externally, and their prosperity to invest has been severely affected by collapsed growth prospects heightened risks. Being at the epicenter of the crisis, developed countries suffered from a 1/3rd contraction in total FDI inflows in 2008. Developing economics started to fell the impact later.

According to the "World Investments Prospects Survey" undertaken by UNCTAD last year, four of the top five investment destinations by the world largest TNCs are Brazil, Russia, India and China(the so called BRIC economies). Interestingly. all these countries are estimated to have experienced a risk in inward FDI in 2008. However, the difficulties and uncertainties in their economics have increased substantially after the sudden worsening of the global financial crisis in September and October 2008. Coupled with the reduced availability of capital worldwide, this has led to a reverse of a growth cycle of inflows to these economics at years' end.

FDI status in India in the recent past

FDI equity inflows in the country have increased from US $ 5.5 billion in 2005-06 to US $ 27.31 billions in the year 2008-09. The FDI inflows in 2007-08 were US $ 24.58 billions and increased to US $ 27.31 billion in 2008-09 despite the economic slowdown showing a growth of 11 percent over the previous financial year.

Government has put in place a liberal and investor friendly policy on FDI under which FDI upto 100 percent is permitted automatic route in most sectors/activities, including infrastructure and R & D.The UNCTAD world investment reports(WIR) 2007 and 2008, in their analysis of the global trends and sustained growth of FDI inflows, have reported India as the second most attractive location for FDI. Govt. has also announced a slew of measures to accelerate the demand in the economy to enable India to continue as an attractive investment destination. Under the liberalized economic environment, decisions of investors are based on the macro economic policy framework, investment climate in the selective policies of transnational corporates and other commercial considerations.

The Govt. of India continues to make efforts to increase economic cooperation with the developing and developed countries through different forums such as Joint Commissions /Joint Committees, other bilateral interactions with the delegations visiting the country and organizing visits abroad for discussions on business/investment meets between Indian and Foreign entrepreneurs to stimulate foreign investments in India. The department of Industrial Policy and Promotion also participates in discussions covering Industry interactions organized by other Ministries and departments of Government of India and Joint Business Councils.

Trends in capital flows in last couple of years

(US $ millions)

Component	**Period**	**2007-08**	**2008-09**
Foreign Direct Investment to India	April-August	8,536	16,733
FIIs(net)	April-Sep,	15,508	6,421
ECBs(net)	April-June	6,990	1,559
Short-term trade credits(net)	April-June	1,804	2.173
ECB approvals	April-August	13,375	8,127
Forex reserves(variations)	April-Sept.	48,583	17,904
Forex reserves(end period)	September 2008	2,47,762	2,91,819

FDI is US $ 16.7 billion in April-Aug. 2008 against 8.5 billion in the corresponding period of 2007, portfolio investments by FIIs witnessed a net outflow of US $ 6.4 billion in April-Sep. 2008 as compared with a net inflow of US $ 15.5 billion in the corresponding period last year.

Similarly, ECBs of the corporate sector declined from US $ 7.00 billions in April-June 2007 to US $ 1.6 billion in April-June 2008 partially in response to policy measures in the face of excess flows in 2007-08 but also due to the current turmoil in advanced economics.

Parliament informed that no impact of global recession FDI.

The Minister for Overseas Indian Affairs recently informed the Lok Sabha that the global recession had no impact on FDI from Indians abroad as it has registered a rise in the current fiscal. Informing the lawmakers about investment figures from the states, the Minister said there had been no decline in investment due to global recession during 2008 as compared to 2007. NRIs, persons of Indian Origin(PIO) and Overseas Corporate Bodies(OCBs) accounted for FDIs and Foreign Technology

Cases(FTC) worth Rs.700 million during Jan-Sep. 2008 in comparisons to Rs.658 million for the period Jan-Dec. 2007. Interestingly, Goa figured as the highest investment attracting state receiving Rs.300 million from the above mentioned categories of investors during 2008. West Bengal came in second among all Indians states, recording Rs.203 millons in FDI.

Record 227 percent growth in India's chemical sector in 2008-09

Chemical sector 227 percent, telecom industry 103 percent were the leaders in attracting FDI in India in 2008-09. India's FDI recorded a growth of 11 percent despite the global recession and liquidity crunch. However, India's exports and imports have together dipped for the first time in seven years, signaling weakened domestic and external demand against the global backdrop. Data released by the commerce ministry showed exports dipping for the fourth consecutive month by 16 percent to US $ 12.4 billion in January 2009, imports contracted by 18.2 percent to US $ 18.5 billion. The trade deficit stood at US $ 6 billion in January 2009. Compared with US $ 7.8 billion in Jan 2008. This has narrowed significantly from a high of nearly US $ 14 billion in August 2008 mainly due to sharp decline in commodity prices. However, in rupees both exports and imports expanded. This is because the Indian rupees has depreciated by nearly 25 percent in the year upto January 31.

Conclusion

The Indian Government made several reforms in the economic policy of the country in the early 1990s. This helped in the liberalization and deregulations of the Indian economy and opened markets to FDI. As a result of this, huge amounts of FDI came into India through NRI, International Companies and various other foreign investors. The growth of FDI in India boosted the economic growth of the country.

FDI in India has increased over the years due to the efforts that have been made by the Indian Government. The increased flow of FDI in India has given a major boost to the country's economy and so measures must be taken in order to ensure that the flow of FDI in India continues to grow.

The total amount of FDI in India came to around US $ 108.86 billion upto April 2009 with increased growth rate since 2004-05. This shows that the flow of FDI in India has grown at a fast pace over the last few years. The various forms of foreign capital flowing into India are NRI deposits, investments in the commercial banks of India and investments in the country's debt and stock markets.

The major sectors of the Indian economy that have benefited from FDI in India are :

- Financial Sector
- Insurance

- Telecommunications
- Hospitality & Tourism
- Pharmaceuticals
- Software and Information Technology

Small slipping in FDI ranking

India has dropped to 3rd place in global foreign direct investments this year following the economic meltdown but will continue to sustain among the top five attractive destinations for International investors during the next two years, says UNCTAD in a new report on World Investment Prospects.

Last year, India was ranked second in global FDI flows after China. While China continues in the top place, the US climbed upto second place. This year, due to a surge in investments by Chinese and Indian Companies, who acquired several sick American firms.

However, overall FDI prospects for India remain buoyant and India will remain among top five destinations. The BRIC countries will be having most of the investment flows once FDI growth starts picking up after 2010.

World Investment Prospects Survey 2008-11, has listed FDI prospects by Industry, particularly the business-cycle-sensitive industries such as automotives and other transport materials, metal and non-metal products and chemicals. With the global economic and financial crisis having wreaked havoc on FDI plans of MNCs, UNCTAD expects gradual recovery from next year.

References

- Business Line
- Rediff Business News
- mapsofindia.com
- UNCTAD press release
- Economic Times
- RBI Bulletin June 2009
- Indlawnews.com