

# FDI in India – A Sectoral Analysis

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## Abstract

The Foreign Direct Investment plays an important role in economic growth of developing countries like India. FDI contributes for the development of the country in the form of development of Multinational companies in India, which provides education training, employment for major part of population of India and brings new skills, information and technology to host country. Government of India allowed FDI in different sectors of Indian economy. With a view to infuse globally acceptable best practices, modern management skills and latest technology, it has been decided to allow foreign investment in India. The objective of this research paper is to do the sectoral analysis for FDI inflows in India and also to know about which sector has concerned with the major share of FDI inflows in India.

**Keywords** – Sector-wise FDI Inflows in India of Services sector, Telecommunications sector, Chemicals sector, Metallurgical Industries, Hotel and Tourism sector.

## Introduction

A Foreign Direct Investment (FDI) is an investment made by a company or entity based in one country, into a company or entity based in another country. FDI is distinguished from portfolio foreign investment, a passive investment in the securities of another country such as public stocks and bonds by the element of control. Entities making direct investments typically have a significant degree of influence and control over the company into which the investment is made.

FDI helps to overtake the problem of low capital, low growth rate untapped natural and human resources, high rate of inflation, unemployment, balance of payment and other structural & administrative rigidities. Its ability to deal with major obstacles namely shortages of financial resources and technology & skills has made it centre of attention for developing countries. The flow of FDI in India from across world will help in acquiring funds at cheaper cost, better technology, generation, and upgraded technology transfer, scope for more trade, linkages and spillovers to domestic firms.

Open economies with skilled workforces and good growth prospects tend to attract larger amounts of foreign direct investment than closed, highly regulated economies. FDI is a key element in this rapidly evolving international economic integration, also referred to as globalization. FDI provides a means for creating direct, stable and long-lasting links between economies. Under the right policy environment, it can serve as an important vehicle for local enterprise development and it may also helps to improve the competitive position of both recipient (host) and investing (home) economy.

## Objectives of the Study

- To do the sectoral analysis for FDI inflows in India.
- To give the recommendations for improving FDI inflows in India.

## Data base and Research Methodology

Various statistical and mathematical techniques have been used in the research paper to provide analytical results of the data. The following methods have been used to analyse the data:

### A. Tabular Analysis

On the basis of the data collected from the various sources, the tabulation analysis is made to make study more meaningful. The use of tables, charts, graphs is also made whenever it is needed and necessary for clarify of thoughts, easy understanding and to make the presentation of research more vivid.

### B. Growth Rate

Trend indicates the directions of operations over a period of time. It also predicts the historical development's in bank's operations.

#### a. Simple Growth Rate

It simply gives the percentage increase over the previous year i.e.

$$g = \frac{Y(t) - Y(t_0)}{Y(t_0)} * 100$$

$g$  = simple percentage growth rate over the base year

$Y(t)$  = value of the given parameter in the current year

$Y(t_0)$  = value of the given parameter in the base year

#### b. Compound Annual Growth Rate

It indicates change for a given period on the basis of the base year and the end year values

$$.g = [(Y_1/Y_0)^{1/t} - 1] 100$$

$g$  = compound growth rate

$Y_1$  and  $Y_0$  = values of the variable  $Y$  at the end year and base year

$t$  = difference of years between the end year and the base year

#### c. Trend Analysis

In the trend analysis, we used the Least Squares method. The method of least squares may be used either to fit a straight line trend or a parabolic trend. The straight line trend is represented by the equation

$$Y_c = a + b X$$

$Y_c$  = trend values

$a$  = computed trend figure of the  $y$  variable when  $x = 0$ ,

$b$  = slope of the trend line (or amount of change in  $y$  for a given

$X$  = independent variable (which is time in the case).

The constant 'a' is equal to the mean of  $Y$  values and the constant 'b' gives the rate of change.

### Analysis and Interpretation

**Sector-wise FDI Inflows in India:** In the analysis of sector-wise FDI inflows in India, we analyze the five sectors during the period 1991-15.

Table-1 shows sector-wise FDI inflows in India during the period 2014-15.

**Table-1**

**Sector-wise FDI Inflows in India as the period 2014-2015**

(Rs. Crore)

Sr. No.	Name of Sector	FDI Inflow in 2014-15
1.	Services Sector	27369
2.	Telecommunications Sector	17372
3.	Chemicals Sector	4658
4.	Metallurgical Sector	2897
5.	Hotel & Tourism Sector	4740

Source: Computed from the various issues of RBI Bulletin, Ministry of Commerce.

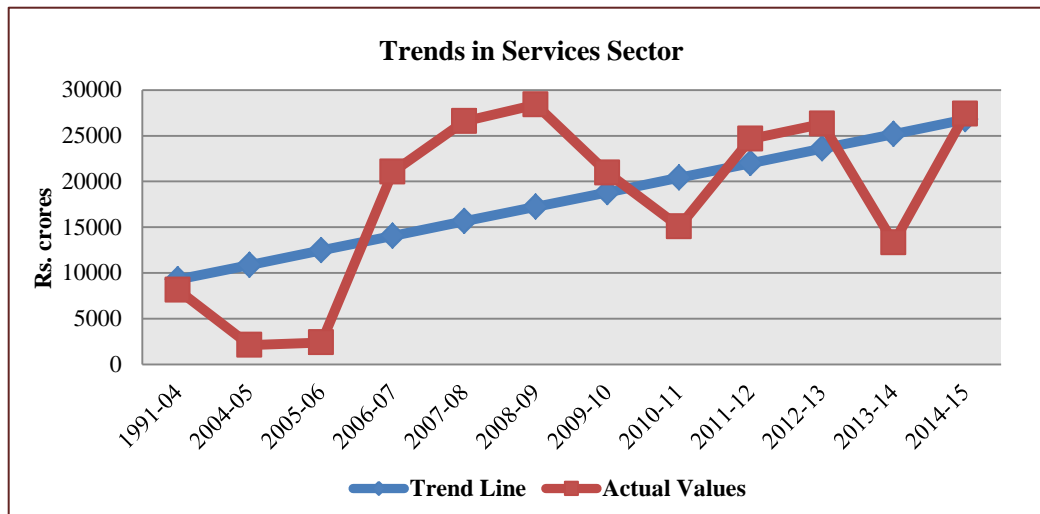
The services sector has highest inflow of FDI (Rs. 27369 crore) in 2014-15 and Metallurgical sector has lowest FDI inflows (Rs. 2897 crore) during 2014-15.

#### Sector-wise FDI Inflows in India

##### 1. Services Sector

Services Sector put the economy on a proper glide path. It is among the main drivers of sustained economic growth and development. India received cumulative FDI inflows of Rs. 1277232 crore during 1991-2015. Out of this, Services sector received an inflow of Rs. 216323 crore, which is 16.94 % of total FDI inflows through FIPB/SIA route, RBI's automatic route and acquisition of existing share route during January 1991 to March 2015.

**Chart-1**



Source: Computed from the various issues of RBI Bulletin, Ministry of Commerce.

(Chart-1) shows that FDI inflows declined in 1991 to 2004 in services sector and has steady inflow up to 2006, but there is an exponential rise in FDI inflows 2006 to 2009. FDI inflows then shot up in 2010 & 2011 but rose in 2012 & 2013. In 2014, FDI inflows decline but in 2015 rose to an appreciable level.

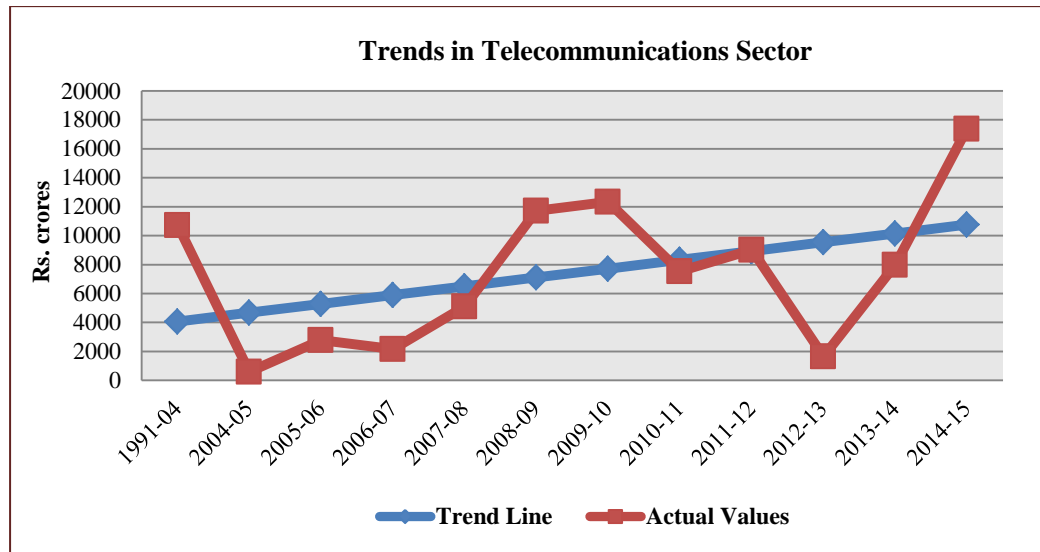
Services sector ranks 1<sup>st</sup> in the list of sectors in terms of cumulative FDI approved from January 1991 to March 2015. The leading Indian companies which received FDI inflows in this sector are: Cairn (I) Ltd., DSP Merrill Lynch Ltd., AAA Global Ventures Pvt. Ltd., Kappa Industries Ltd., Citi Financial Consumer Finance (I) Ltd., Blue Dart Express Ltd., Vyasa Bank Ltd., CRISIL Ltd., Associates India Holding Co. Pvt. Ltd., Housing Development Finance Corp. Ltd.

## **2. Telecommunications Sector**

Telecommunications Sector comprises Telecommunications, Radio Paging, Cellular Mobile / Basic Telephone Services, etc. India received cumulative FDI inflows of Rs. 1277232 crore during 1991-2015. Out of this, Telecommunications sector received an inflow of Rs. 88979 crore, which is 6.97 % of total FDI inflows through FIPB/SIA route, RBI's automatic route and acquisition of existing share route during January 1991 to March 2015.

(Chart-2) shows that FDI inflows in telecommunications sector declined in 1991 to 2004, rise from 2005 and again decline from 2006 but there is an exponential rise in FDI inflows from 2007 onwards and decline from 2010, rise from 2011. FDI inflows then shot up from 2012 and then rose to an appreciable level from 2013 onwards.

Chart-2



Source: Computed from the various issues of RBI Bulletin, Ministry of Commerce.

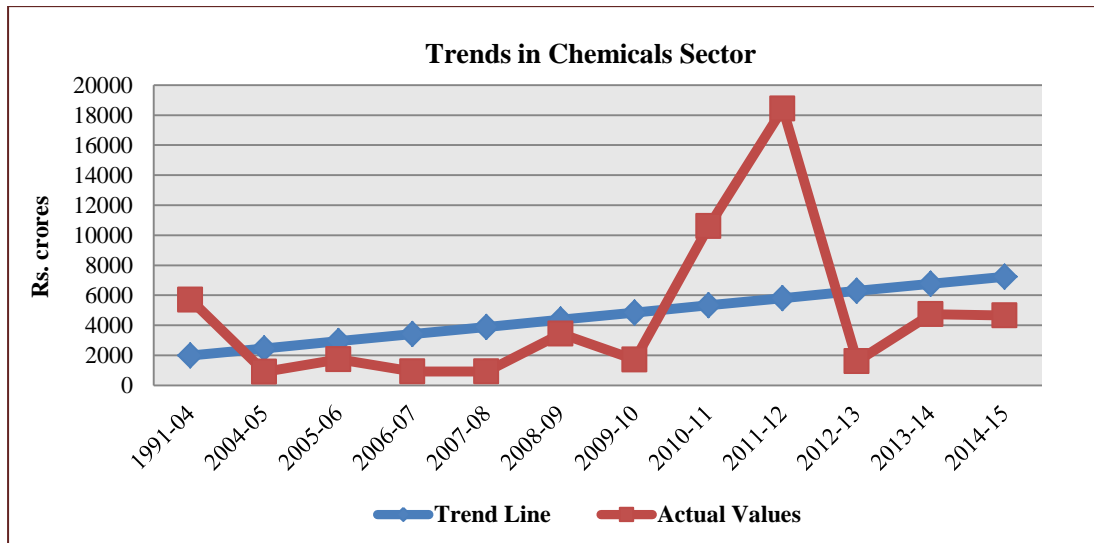
Telecommunication sector ranks 2<sup>nd</sup> in the list of sectors in terms of cumulative FDI approved from January 1991 to March 2015. The leading Indian companies which received FDI inflows in this sector are: Bhaik Infotel Pvt. Ltd., Aircel Ltd., Bharti Tele Ventures Ltd., Bharti Telecom Ltd., Flextronics Software Systems Ltd., Hathway Cable & Data Com. Pvt. Ltd, Unitech Developers & Projects Ltd., Hutchison Essar South Ltd., etc.

### 3. Chemicals Sector

Chemicals sector ranks 3<sup>rd</sup> in the list of sectors in terms of cumulative FDI approved from January 1991 to March 2015. India received cumulative FDI inflows of Rs. 1277432 crore during 1991-2015. Out of this, Chemicals sector received an inflow of Rs. 55342 crore, which is 4.33 % of total FDI inflows through FIPB / SIA route, RBI's automatic route and acquisition of existing share route during January 1991 to March 2015.

(Chart-3) shows FDI inflows has declined in chemicals sector in 1991 to 2004 and rise in 2005, decline from 2006 & 2007, rise from 2008 and then shot up in 2009 but rise in FDI inflows from 2010 & 2011. FDI inflows then decline from 2012 but rise in FDI inflows from 2013. As a result, we can say that there is upward and downward FDI inflows during 2005 to 2009 and 2012 to 2015.

Chart-3

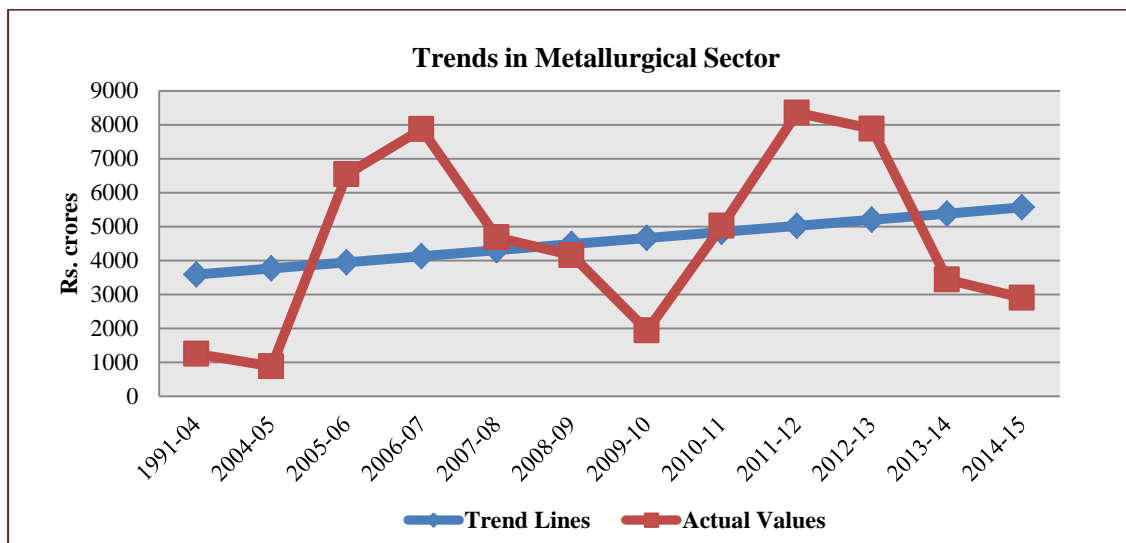


Source: Computed from the various issues of RBI Bulletin, Ministry of Commerce.

#### 4. Metallurgical Industries

Metallurgical Industries comprises metals and metal products industries.

Chart-4



Source: Computed from the various issues of RBI Bulletin, Ministry of Commerce.

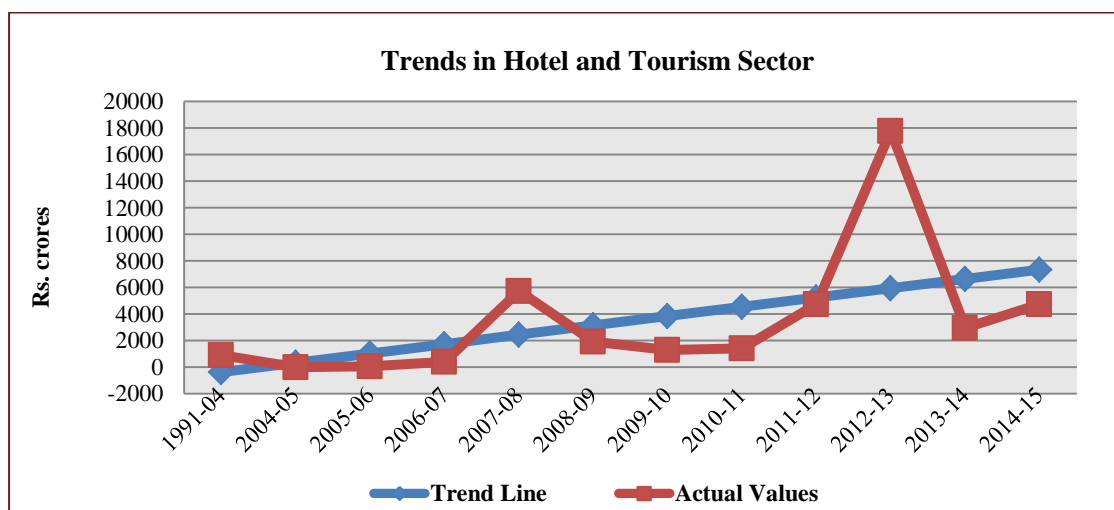
India received cumulative FDI inflows of Rs. 1277232 crore during January 1991 to March 2015. Out of this, metallurgical industries received an inflow of Rs. 54901 crore, which is 4.30 % of total FDI inflows through FIPB / SIA route, RBI's automatic route and acquisition of existing share route.

(Chart-4) shows FDI inflows in metallurgical industries sector has declined in 1991 to 2004, but there is an exponential rise in FDI inflows from 2005 then inflows decline from 2007. Then FDI inflows increased from 2010 onwards and decreased 2012-2015.

## 5. Hotel and Tourism Sector

Hotel and Tourism sector received 3.28 % of total FDI inflows during 1991-2015. India received cumulative FDI inflows of Rs. 1277232 crore during January 1991 to March 2015. Out of this, Hotel and Tourism sector received an inflow of Rs. 41946 crore through FIPB/SIA route, RBI's automatic route and acquisition of existing share route during January 1991 to March 2015.

Chart-5



Source: Computed from the various issues of RBI Bulletin, Ministry of Commerce.

(Chart-5) shows FDI inflows in hotel and tourism sector declined up to 2006, but rise in FDI inflows from 2007 and again decline from 2008. But there is an exponential rise in FDI inflows from 2011 and there is decline in 2013 and after that there is small increase in 2014.

## Conclusion

From the above analysis, the study concluded that in the FDI-Sectoral analysis, Services sector is at the top position and received 16.94 % of total FDI inflows from January 1991 to March 2015. Telecommunication sector is at the 2<sup>nd</sup> position and received 6.97 %, and Chemicals sector is at the 3<sup>rd</sup> position and received 4.33 % of total FDI inflows. Metallurgical sector received 4.30 % of total FDI inflows and this sector comprises metals and metal products industries. Hotel and Tourism sector received lowest FDI inflows 3.28 % of total FDI inflows. As a result, we can say that sectoral analysis of FDI inflow plays an important role in the economic development of the country.

## Recommendations

- ❖ Government should open doors to foreign companies in the export-oriented services which could increase the demand of unskilled workers and low skilled services and also increases the wage level in these services.
- ❖ It recommends that government must promote sustainable development through FDI by political involvement of people and ensuring personal security of citizens and

government should focus on FDI to boost domestic competitiveness, enhance skills, for social and economic gains.

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