FDI INTERVENTION VS ECONOMIC GROWTH OF INDIA
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ABSTRACT

Since the last decade of the twentieth century, Liberalisation of Policies, Globalisation and Foreign Direct Investments have been influencing International Trade and Commerce to a substantial ways.I this paper we have analyzed the intervention of FDI in the growth of economic conditions /growth. Specifically this study emphasizes on the linkage between the growth of specific sector and FDI; and growth of GNP and FDI. From this study we have explored the importance of FDI in whole economic system as well as in specific sector. On the basis of our finding we came to conclusion that sectors such as Services Sector, Housing & Real Estate, and Metallurgical etc performing well with proportional growth of FDI but some of the sector require more attention from policy formulation and execution side.

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Key words: FDI Intervention, Liberalisation,GNP,Proportional growth

INTRODUCTION

Foreign Direct Investment (FDI) inflows in India are a defining feature of free market, liberalization and globalization.. Emerging markets possess a lot of potential for foreign direct investment (FDI). FDI in India is on the increase but the country has not experienced a rapid growth of FDI inflow. Theories of FDI suggest that firm size, profitability, trade, interest rates, economy and inflation wield significant influence in attracting FDI. This study explores the factors that contribute to the explanation of FDI in India and tests whether the variables do really influence the flow of FDI into India.

India is widely recognized as an emerging global economic power. Indian economy recorded rate of economic growth 5-5.4 per cent [source: Central Statistical Organization] in the current fiscal year 2012-13. This is evidence enough for an economy to be called as high performing economy. The sustained high rate of

economic growth in the first half of the first decade of the 21st century has allowed India to join the club of high growth performing economies of East Asia and China.

India's industrial growth plummeted to a 16-month low of 4.4 per cent in September 2012; considerably trailing behind the high growth of 8.2 per cent attained during the same month a year ago. All major components in IIP registered a sluggish increase in output in September visà-vis the growth in September last year. It is expected that the October numbers may go higher on due to the festive season.

Growth in six core infrastructure industries dipped to 2.8 per cent in September 2013 as compared to an increase of 4.3 per cent during the same month of last year. The slackening pace in the output of six core infrastructure industries was on account of shrinkage in the output of petroleum refinery and coal sector. Core sector growth continued to lag behind the industrial growth. According to RBI, the prevailing growth trends in core sectors need to be improved, especially in the power generation sector, for a sustained recovery in industrial growth. While, Inflationary pressure continues in the case of food items, the build-up in inflation from March end were observed to have fallen compared to the previous year.

The stock market opened on an upbeat note in September 2013. The high investment sentiments were as a result of recovery in the global markets after the fading out of uncertainties of double dip recession. Both the BSE and NSE indices appreciated by 12.3 per cent during this month compared to the previous year. The growth in money supply (M$_3$) remained subdued during the first half (H1) of 2012-13. This is low growth was largely associated with deceleration in deposits growth. On the sources side, the growth of banking credit to the government remained considerably low causing a sluggish increase in M$_3$.

Improvements in Central Govt. finances was clearly evident during the first half of 2012-13 as the revenue receipts increased substantially with the rise in direct and indirect taxes. The gross tax revenue increased significantly by 25.3 per cent during the period from April to September in the current fiscal, this is in contrast to sharp decline by 7.6 per cent recorded in 2012-13 (April- September). The fiscal deficit narrowed in the first half of 2012-13 compared to that of the previous year.

India's trade deficit stood at USD 9.1 billion in September 2012 as compared to USD 6.9 billion during the same month of last year. This was the narrowest trade deficit since the deficit of USD 7.8 billion in March 2012. According to Govt. sources, India's trade deficit could touch USD135 billion for the entire fiscal 2012-13, surpassing the earlier projected figure of USD 120 billion.

India received record net capital inflows of USD 37.4 billion during the first half (April- September) of 2012-13. Although this phenomenal increase in capital inflows was nothing new in most of the emerging

Asian economies because of favorable interest rate spreads. Many countries experienced surplus in their current account balance, however, India's deficit continued to remain.

[Source: Data from :Central Statistical Organization]

Objectives of the study

1. To identify the sectors attracting highest FDI inflows.

2. To rank the sectors based upon FDI inflows.

3. To examine the patterns in FDI from different countries in India during the period 1991 to 2013.

4. To analyze relationship between increase in the inflow FDI and growth of Indian economy.

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RESEARCH METHODOLOGY

The study is based on secondary data and the facts and figures collected from various sources such as Fact Sheets on FDI, Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce and Industry, Government of India (GOI).

• The study has taken into account the performance of FDI in India. The sample period is 1991-92 to 2012-13.

• The sample size of study is limited to a sample of top 10 investing countries

• REVIEW OF LITERATURE

According to Hymer (1960), Caves (1996), Dunning (1993) found that MNEs have both tangible and intangible resources, or explicit and tacit knowledge, in the form of technologies, managerial skill, international networks, capital, and brand names and goodwill (Hymer 1960, Caves 1996, Dunning 1993).

According to Teece (1977) stated that the MNEs can supply these resources to local firms in equity joint ventures (intra-firm), in non-equity strategic alliances, or in arm's-length transactions through the external market. The transfer mechanism through the market or intra-firm depends on transaction costs (Teece 1977).

According to Lucas (1990) has also analyzed the issue by examining the question of why capital does not flow from rich to poor countries and critically explored some candidate answers that are based on human capital and capital market imperfections. With regard to human capital, he shows that the rich country's optimal policy is to retard capital flows so as to maintain real wages at artificially low levels in the poor country. As far as capital market imperfections are concerned, Lucas's paper analyzes a borrowing contract between poor and rich countries. In this paper, the focus is on linkages and on the rational behavior of different foreign investors in the face of reform uncertainty.

According to Cheng (1993) noted the growing importance of cross-border R & D activities and suggested that additional research on FDI should be done on why firms internationalize their R & D Anand and Delios (1996) documented that the relatively slow growth of FDI from Japanese MNCs in India as compared to China is attributed to the desire to gain only market access in India.

According to Garg (1996) documented that along with the regulation of product prices, since 1986 the Indian government has limited the profits pharmaceutical companies can earn to approximately 6 percent of sales turnover. From 1970 through the early 1990s, industry pre-tax profitability as a percent of sales declined consistently, one reason for which was the rate of return constraint. Indeed, in 1977- 1978 industry profitability 11.7 percent. In 1982-1983 this dropped to 7.5 percent, further declining to 3.5 percent in 1987-1988. Since 1992, industry profitability has been rising, and by 1996 it had reached approximately 10 percent of sales (Garg 1996).

According to Dijkstra (2000), Tybout (2000) and Vachani (1997) found that investment policy liberalizations have major impacts on firms in less developed countries (LDCs) where the pre-liberalization level of protection was high. Not all firms are affected equally; some will be losers while others will be winners, depending on their characteristics.

According to Feinberg & Majumdar (2001) found that Liberalization of FDI policies offers opportunities for firms as well as threats. If FDI (and trade) liberalization results in faster growing national economies, then firms face larger, faster-growing markets domestically. The studies of FDI in the US, Japan and Europe have been prevalent, similar research on FDI in India is however limited. Restricted policy environment towards FDI and weak property protection rights have been described to cause significant R&D spillovers in Indian pharmaceutical sector [Feinberg and Majumdar 2001].

According to Aditya K.R. Bajaj and Swastik Nigam (2007) in this work made an attempt to analyze and study the impact of globalization in the pharmaceutical industry and FDI spillovers in various forms to the domestic pharmaceutical industry in terms of domestic productivity and competitiveness etc. The analysis of the study reveals that the spillover effects have had a manifold impact on the Indian pharmaceutical industry, with the new WTO patent regime introduced in 2005, the foreign players have found greater security in operating in India and due to the spillover effects of a competitive environment, the domestic players have substantially increased their productivity, probability and hence compete on stranger footing with the incoming pharma firms.

DATA ANALYSIS

Year wise Inflows of FDI

Table 1

Year	FDI(Y)(Rs. Crore)	FDI(US $ Million)
1999-00*	10015	2821
2000-01*	13220	3557
2001-02*	10358	2462
2002-03*	9338	2155
2003-04*	18406	4029
2004-05*	29235	6130
2005-06*	24367	5035
2006-07*	19860	4322
2007-08*	27188	6051
2008-09*	39674	8961
2009-10*	103367	22826
2010-11*	140180	34835
2011-12*P	161536	35180
2012-13*P	176304	37182
Total	797465	180034

Source: RBI

P: Provisional.

* Includes acquisition of shares of Indian companies by non-residents under Section 6 of FEMA, 1999.

Note:

1. Portfolio investment Data includes FII,ADR/GDR and investment of offshore funds

2. Direct Investment data for 2010-11 include swap of shares of 3.1 billion.

This table shows the inflow of FDI over the period 1999-2000 till 2012-13. Inflow of FDI gained momentum in the year 2010-11 as evident from the inflow in the subsequent years.

Share of top 10 Investing Countries FDI Equity Inflows (financial years)

Table 2

Amount ` in crores (US$ in million)

Ranks	Country	2010-11 (April-March)	2011-12 (April-March)	2012-13 (April-Nov.)	Cumulative Inflows (April '00 - Nov. '13)	%age to total Inflows (in terms of US $)
1.	MAURITIUS	50,899 (11,229)	49,633 (10,376)	23,576 (5,158)	234,482 (52,398)	42 %
2.	SINGAPORE	15,727 (3,454)	11,295 (2,379)	6,198 (1,367)	51,344 (11,557)	9 %
3.	U.S.A.	8,002 (1,802)	9,230 (1,943)	4,247 (926)	41,436 (9,204)	7 %
4.	U.K.	3,840 (864)	3,094 (657)	1,765 (385)	27,764 (6,269)	5 %
5.	NETHERLANDS	3,922 (883)	4,283 (899)	3,643 (802)	23,769 (5,289)	4 %

6.	JAPAN	1,889 (405)	5,670 (1,183)	4,141 (917)	21,036 (4,631)	4 %
7.	CYPRUS	5,983 (1,287)	7,728 (1,627)	2,746 (598)	20,523 (4,498)	4 %
8.	GERMANY	2,750 (629)	2,980 (626)	473 (104)	12,941 (2,903)	2 %
9	FRANCE	2,098 (467)	1,437 (303)	1,569 (340)	8,488 (1,870)	2 %
10.	U.A.E.	1,133 (257)	3,017 (629)	1,289 (278)	8,312 (1,828)	1 %
Total FDI Inflows		123,025 (27,331)	123,120 (25834)	64,083 (14,025)	556,819 (124,436)	-

Note: (i) *Includes inflows under NRI Schemes of RBI.
 (ii) Cumulative country-wise FDI equity inflows (from April 2000 to November 2013) – Annex-'A'.
(iii) %age worked out in US$ terms & FDI inflows received through FIPB/SIA+ RBI's Automatic Route+ acquisition of existing shares only.

Sectors attracting highest FDI Equity Inflows

Table-3

Amount ` in crores (US$ in million)

Ranks	Sector	2010-11 (April March)	2011-12 (April-March)	2012-13 (April-Nov.)	Cumulative Inflows (April '00 - Nov. '13)	% age to total Inflows (In terms of US$)
1.	SERVICES SECTOR (financial & non-financial)	28,516 (6,138)	20,776 (4,353)	11,885 (2,596)	117,114 (26,197)	21 %
2.	COMPUTER SOFTWARE & HARDWARE	7,329 (1,677)	4,351 (919)	2,617 (574)	46,464 (10,446)	8 %
3.	TELECOMMUNICATIONS (radio paging, cellular mobile, basic telephone services)	11,727 (2,558)	12,338 (2,554)	4,962 (1,093)	45,668 (10,023)	8 %
4.	HOUSING & REAL ESTATE	12,621 (2,801)	13,586 (2,844)	4,569 (999)	41,938 (9,356)	8 %
5.	CONSTRUCTION ACTIVITIES (including roads & highways)	8,792 (2,028)	13,516 (2,862)	3,762 (834)	39,455 (8,887)	7 %
6.	POWER	4,382 (985)	6,908 (1,437)	4,491 (984)	25,411 (5,611)	5 %

.	AUTOMOBILE INDUSTRY	5,212 (1,152)	5,754 (1,208)	2,399 (533)	23,221 (5,129)	4 %
.	METALLURGICAL INDUSTRIES	4,157 (961)	1,935 (407)	4,402 (960)	17,842 (4,090)	3 %
.	PETROLEUM & NATURAL GAS	1,931 (412)	1,328 (272)	2,421 (529)	13,925 (3,195)	3 %
0.	CHEMICALS (other than fertilizers)	3,427 (749)	1,707 (362)	1,238 (271)	12,513 (2,767)	2 %

Model on FDI and GDP growth rate

Table 4

Year	GDP(%)	FDI(%)
1999-00*	15.67393542	39.64026771
2000-01*	10.77463864	32.001997
2001-02*	14.67045322	-21.64901664
2002-03*	11.46854241	-9.8474609
2003-04*	7.698526052	97.10858856
2004-05*	8.402075047	58.83407584
2005-06*	7.705691037	-16.65127416
2006-07*	12.2245485	-18.496327
2007-08*	17.59240839	36.89828802
2008-09*	14.42472024	45.92467265
2009-10*	15.58101192	160.5409084
2010-11*	15.49676131	35.61388064
2011-12*P	12.66388661	15.23469825
2012-13*P	11.78096917	9.142234548

Here independent variable is FDI and dependent variable is GDP at factor cost.

Now,

$Y = a + bX + u$

Where,

Y is dependent

a is the constant i.e. intercept

X is independent

b is the coefficient of independent variable i.e. slope of x

u is the error term

The model in this report is referred from Margin - The Journal of Applied Economic Research 4:4 (2010):369-404

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$FDI_{it} = f(P,Q,TC)$ ---------- (i)*

where,

$TC = IC + OC + HC$

P = Price of the output which is mainly determined in the competitive market

Q = output

TC = total cost

IC = input costs, such as labour, land, raw materials, electricity, gas, water and the interest rate

HC = hidden cost which is the difference between the time and money costs declared by the government and time and money actuallu paid by the investors

OC = operation costs which includesboth financial and time costs

i = no. of different countries

t = time

After substituting the value of TC, we have

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$FDI_{it} = f(P,Q,IC, OC, HC)$

4.4.2 Regression Analysis

According to above model,

Gross Domestic Product at factor cost (GDP_{fc}) depends upon the actual budgeted flow of fund plus net FDI flow into the economic system.

$GDP_{fc} = a + b + cfdi + u$………………. (i)

Where GDP = Gross Domestic Product at factor cost;

a = intercept value;

b = absolute budgeted amount;

c = co-efficient of FDI for GDP and;

u = error term

Conclusion

The pattern of Foreign Direct Investment in India shows that over the years there has been huge increase in the inflow of FDI. The inflow grew from Rs. 408 crores in 1991-92 to Rs. 135,000 crores in the year 2012-13 which is close to 350 times.

It was surprising to note that it was not United States but its Mauritius which has made highest investment in India, it is almost 40% followed by United States which is a mere 8% only. Singapore is also increasing its investment in India The contribution of the top 10 countries is almost 76% of the total investment and the contribution of the rest of the world which comprises of almost 150 countries is only 24%.

It's the services sector including both financial and non financial which has attracted the maximum foreign investors. The reason for this is the contribution of this sector in the GDP which is close to 55% of the total GDP of the country. The total investment in this sector is Rs. 89,000 crores which is approximately 20% of the total investment. After services its IT sector which has attracted the most. The sector includes computer software, hardware and electronics. The total investment in this sector has been Rs. 49,000 crores which is approximately 11% of the total investment. If we look at the pattern of investment in the last three years then apart from the above two sectors Telecom sector and Construction Sector which includes roadways and highways has had maximum investment as compare to other sectors.

Sectors which showed some correlation were Housing and Real Estate and Metallurgical Industry and sectors which showed no correlation were Construction Activities, Transportation and Automobile Industry, Fuels i.e. Power and Oil refinery and Petroleum and Natural Gas. There were sectors like Services sector Electrical Equipments, Telecom and Chemicals for which correlation could not be calculated because of lack of data.

As per the model developed we came to know that there is no proportional relationship between the growth of Indian economy and the inflow of FDI in India. This conclusion was drawn up from the analysis with the help of Durbin Watson test and Regression Analysis.

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