A Comparative study of FDI Inflow and Outflow from India

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***Abstract:*- In today's' world of globalization, one of the most outstanding feature is the expansion in foreign investments in both developed and developing countries. There has been substantial growth in FDI flows in last two decades as compared to other economic indicators worldwide. FDI has been considered as one of the most secured form of external finance as it not only supplement home savings, foreign reserves but also expedite sharing of technology and skills, increases innovative capacity and domestic competition among member countries. These days, FDI has become an important tool of international economic integration. India is the 7th largest, and the 2nd most populated country in the world. Geographical convergence, cultural diversity and rich human resource are few important features of India which makes it attractive for global investment. Being the largest democracy of the world, India has grown as a global resource for industry in manufacturing and services. India has emerged as a viable partner to global investors on account of its large available technical skills, English speaking population with its growing disposable income and expanding market. Currently,** opportunities for foreign investments in India are at boom.

Keywords : Globalization, Economic indicators, Foreign reserves.

I. INTRODUCTION

FDI is considered to be the most attractive type of capital flow for emerging economies as it is expected to bring *latest technology and enhance production capabilities* of the economy. Foreign investments mean both foreign portfolio investments and foreign direct investments (FDI). FDI brings better technology and management, access to marketing networks and offers competition, the latter helping Indian companies improve, quite apart from being good for consumers. This efficiency contribution of FDI is much more important.The change in the sentiments towards FDI was given effect to in the form of a series of changes in the policies. These included removing the ceilings on foreign equity imposed by the FERA, lifting of restrictions on the use of foreign brand names in the domestic market, removing restrictions on entry and expansion of foreign direct investment into consumer goods, abandoning the "local content" and "foreign exchange balancing" rules, among others. The parallel process of virtual withdrawal of the Industrial Licensing System and the retreating from the primacy given to public sector also enhanced the scope for FDI participation in India.

India is now the world's 21st largest outward investor, which is significant given its historically miniscule foreign direct investment (FDI) outflows. Indian firms are once again increasing their overseas investment, including through mergers and acquisitions (M&As). India's OFDI should continue its rapid upward trend overcoming its policy barriers and emerge as a sturdy economy of the world. Outward FDI can help realize India its true potential of economic growth on world's arena. India has become an indispensable strategic global partner for both multinational corporations and to their home countries. The inward foreign direct investments and outward investments have reached a historic high in the recent years. Indian firms are now growing globally in order to service overseas markets. The increasing engagement of the Indian companies in the world markets is not only an indication of the maturity reached by Indian Industry but also the extent of their participation in the overall globalization process. In this context, this study pertains to outward FDI from India. The mounting competitiveness of Indian multinationals and their increasing desire to venture abroad to expand markets, operate near to clients and acquire technology and brand names are key drivers pushing more Indian firms to go abroad. Substantial improvements in the country's economic performance and the competitiveness of its firms and their strategy, resulting from ongoing liberalization in economic and outward FDI (OFDI) policies, made these developments possible. In fact, there has been an impressive spurt in the outward FDI activity of Indian MNEs since the 1990s. Hence, Government should support Indian firms in overseas expansion because such expansions will increase home country exports and provide parents firms' cheaper raw material through backward FDI.

FDI can be largely classified into two types:

(a) Inward FDIs.
(b) Outward FDIs

Table 1.1
Percentage share of Major Countries in the total global FDI Inflow

Country	1999	% Share	2009	% Share	2016	% Share
United States	179045	30.7	319737	23.2	349530	13.8
China	43751	7.5	147791	10.7	72971	2.9
France	30984	5.3	96990	7	9993	0.4
United Kingdom	74349	12.8	95968	7	-14971	-0.6
Luxembourg	-	-	80373	5.8	4146	0.2
Russian Federation	2761	0.5	73053	5.3	70685	2.8
Spain	11798	2	65412	4.7	16588	0.7
Belgium	-	-	59564	4.3	17937	0.7
Australia	6003	1	46565	3.4	-3063	-0.1
Brazil	31913	5.5	45058	3.3	-3496	-0.1
Canada	22803	3.9	44689	3.2	50521	2.0
India	2635	0.5	41169	3	286721	11.3
Sweden	19843	3.4	40395	2.9	28881	1.1
Germany	24597	4.2	24891	1.8	32208	1.3
Japan	3193	0.5	24418	1.8	135745	5.4
Mexico	8612	1.5	21950	1.6	13138	0.5
Turkey	940	0.2	18171	1.3	-14971	-0.6
Switzerland	8942	1.5	17407	1.3	583455	23.0
Italy	4280	0.7	16999	1.2	29076	1.1
Chile	4628	0.8	16787	1.2	8084	0.3
Poland	6368	1.1	15980	1.2	1488	0.1
Austria	4534	0.8	13525	1	16213	0.6

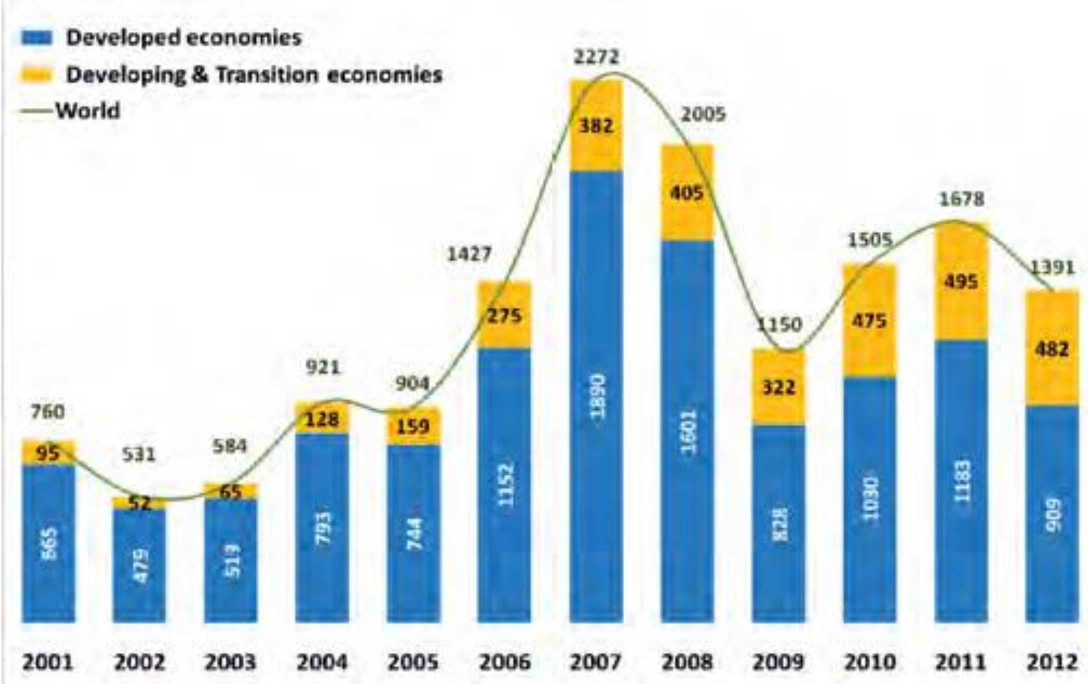
Country	1999	% Share	2009	% Share	2016	% Share
Denmark	7726	1.3	10708	0.8	9534	0.4
Czech Republic	3716	0.6	10704	0.8	4021	0.2
Israel	1737	0.3	10544	0.8	4670	0.2
South Africa	550	0.1	9632	0.7		0.0
Indonesia	-241	0	8340	0.6	6652	0.3
Hungary	3337	0.6	6552	0.5	-2808	-0.1
Greece	72	0	5083	0.4	-785	0.0
Portugal	3005	0.5	3525	0.3	917	0.0
Slovak Republic	707	0.1	3410	0.2	-422	0.0
Korea	5412	0.9	2200	0.2	31488	1.2
New Zealand	1826	0.3	1975	0.1	524	0.0
Estonia	581	0.1	1969	0.1	375	0.0
Slovenia	216	0	1808	0.1	-222	0.0
Norway	3935	0.7	-95	0	154558	6.1
Iceland	148	0	-379	0	460	0.0
Finland	12141	2.1	-4192	-0.3	-2686	-0.1
Netherlands	36925	6.3	-9063	-0.7	613361	24.2
Ireland	8856	1.5	-12278	-0.9	23971	0.9
1	582628	100	1377335	100	2536500	100.0

Source : *OECD Factbook 2016: Economic, Environmental and Social Statistics - ISBN 92 64-08356-1 - © OECD 2016*

II. FDI OUTFLOW

In current years, emerging market economies (EMEs) are progressively becoming a basis of foreign investment for rest of the world. It is not only a indicator of their progressive participation in the international economy but also of their increasing competency. The figure below demonstrates that outward investment is increasingly being rooted from developing economies rather than developed economy over the recent years.

Figure 1.1: Trends in World ODI flows: Developed vs. Developing Economies (US$ billion)



Source : World Investment Report, 2013; EXIM Bank Research

Figure 1.2: Drivers for Outward Direct Investments

FDI is an outcome of the internationalization process that initiates with exports. Through this process, nations try to reach to markets or resources and slowly decrease the cost of manufacturing and transaction by enlarging overseas production operations in nations where some ownership-specific benefits can aid in competing internationally. A

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striking increase in outward FDI has been noticed in the case of India in recent past. with other nations of the world is obvious not only in the form of increased scale of FDI inflows but also in way of enhanced levels of FDI outflows.

III. REVIEW OF LITERATURE

A. FDI Inflow

FDI inflows to India underwent substantial decline in 2010-11 while other emerging market economies (EMEs) in Asia as well as Latin America received huge inflows raising a grave concern and caution in the light of increasing current account deficit in India more than the expected sustainable level of 3.0 per cent of GDP during April-December 2010. This is also important since as FDI is generally considered as the most stable element of capital flows needed to fund the current account deficit.

Chopra & Sachdeva (2014) are of the view that FDI may be an attractive way of investment but it may take advantage of the natural resources at increasing pace and leave the host country disadvantaged in the long run. Instead of it being a vital contributor to economic development, it is a hazard/danger/risk to the existence of domestic firms. It also has many demerits such as, enlarged income inequalities, improper consumption patterns, decline in profits of domestic industries and also affect political decisions. It is widely accepted that FDI inflow has many advantages for a nation. UNCTAD (1999) reported that Transnational Corporations (TNCs) can supplement domestic development plans through (i) expanding/ enlarging financial resources for development; (ii) promoting export competiveness; (iii) generation of employment and enhancing the skill base; (iv) protecting the environment to realise the obligation towards social responsibility; and (v) improving technological efficiencies through transmission , dissemination and generation.

According to Jain (2015), the economic policy changes have not only made India an attractive FDI destination globally but have also shown the way to the rest of the world by accomplishing what was anticipated. Large progressive economy, largely unexploited domestic market, accessibility to domestic skill sets and access to technology makes India a favoured destination for FDI but abundance of approvals, administrative measures , labour regulations, legal system, etc. are hurdles in carrying out business in India. Thus, the govt should allow “automatic route” for all investments in the sector cap; provide long term visibility and stability of policy; enhance business environment by the reduction in the number of processes and approvals; make all approvals time specific and non-discretionary; and promote enhancement of urban infrastructure in cities.

B. FDI Outflow

In recent years, developing economies (EMEs) are gradually becoming a foundation of overseas investment for rest of the world. It depicts their growing involvement in the global economy but also of their rising capability. More importantly, an increasing need for change is coming from developing nations and economies in conversion, where many private as well as state-owned firms are increasingly involved in outward expansion through overseas direct. Chopra and Sachdeva (2014) in their study highlight that outward FDI is closely related to multi-layered structures. The reasons for this include legitimate business/commercial issues relating to taxation benefits which can be availed by any global investors. It further states that other hand the objective is of having multi-layered structures is to create obscurity for motives not valid on commercial basis or from the perspective of home country’s interest. Thus, there arises a need to have a more clarity in this regard.

Sarma (2015) in her study analyse the accepted /conventional investment models and empirical literature on India’ s ODI investment flows. Besides reaffirm the literature, it also some results that can be practically seen as a global phenomenon. Trade is widely accepted a crucial factor for boosting investments amongst countries. Indias membership in various regional blocks such as ASEAN-India, Free Trade Agreement (FTA) as well as bilateral FTA give a conductive /beneficial trade platform for Indian companies to substantiate their in the host nation. Also, Singaporeand Mauritius are the nations which received the highest FDI from India which shows that India has signed Double Tax Avoidance Agreement (DTAA) with these two nations.

IV. RESEARCH METHODOLOGY

The present study is based on descriptive research. The nature of the research study is longitudinal which refer to the data gathered over a period of time for the same subject. The propose study depends on the secondary data have been collected from various reports, periodicals, journals, newspapers, editorials, magazines and websites.

A. Objective of the Study

- To study the trend in FDI outflow from India.
- To know the trend in FDI inflow into India over the period of study.
- To explore the sectors in which FDI inflow has occurred.
- To find out about the sectors in which FDI outflow has occurred.

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V. INDIA'S POSITION IN THE WORLD

A. Status of FDI Inflow

The table given below demonstrates the status of FDI inflows into India, China, Developing countries as a whole and the world average as a % GFCF.

Table 1.2

FDI Inflow (as % of Gross Fixed Capital Formation)

FDI Inflow (as Percentage of Fixed Capital Formation) 2003-2016				
Region/economy	**India**	**China**	**Developing economies**	**World**
2003	4.7	10.3	12.7	9.2
2004	4.6	10.0	9.4	7.8
2005	2.8	8.3	9.5	6.4
2006	2.8	7.7	10.6	6.9
2007	3.0	8.0	11.2	8.5
2008	6.9	6.6	11.5	11.6
2009	6.2	6.1	12.2	13.6
2010	12.3	5.9	11.3	9.8
2011	8.2	4.1	8.5	8.5
2012	5.2	4.2	8.9	8.7
2013	5.8	3.7	8.4	9.1
2014	4.2	3.2	7.8	7.9
2015	5.1	2.9	7.6	8.0
2016	5.9	2.7	7.4	6.5

- *Source: World Investment Report, 2016, United Nations Conference on Trade and Development*

FDI inflow as Percentage of GFCF, for developing economies as well as China has declined significantly during the entire period studied. For the world as a whole the FDI inflows increased between 2003 and 2008 and thereafter it declined. On the other hand, for India, FDI as a percentage of GFCF reached a peak in 2008 at 6.9 %, on average it increased over the entire period.

B. Status of FDI Outflow

The table given below demonstrates the status of FDI outflow into India, China, Developing countries as a whole and the world average as a % GFCF.

Table 1.3
FDI Outflow (as % of Gross Fixed Capital Formation)

YEAR	India	China	Developing economies	World
2003	1.2	1.5	3.4	7.9
2004	1.4	0.5	2.0	6.5
2005	1.2	0.4	1.9	6.2
2006	1.0	0.7	4.5	9.0
2007	1.2	1.4	3.7	7.3
2008	4.8	1.9	5.8	11.2
2009	4.2	1.9	6.3	15.5
2010	5.5	3.0	5.3	11.2
2011	3.7	2.5	4.3	7.9
2012	3.0	2.5	5.3	9.1
2013	2.0	2.2	4.7	9.3
2014	1.5	2.3	4.4	7.3
2015	0.3	2.3	4.3	7.1
2016	1.7	2.5	5.2	7.2

Source: World Investment Report, 2016, United Nations Conference on Trade and Development

FDI outflow as Percentage of GFCF, for the entire world and developing economies as well as India has declined significantly during the second half the period studied, after witnessing a steady growth in the first half of the period studied. On the other hand, for China, Outward Foreign Direct Investment as a percentage of GFCF reached a peak in 2008 at 2.5%. Thereafter it was remain constant. A decline from 3% to 1.7% was experienced in case of India over the same period.

VI. TRENDS IN FDI INFLOW TO INDIA

A. Compound Annual Growth Rate of FDI Inflow

The table below exhibits the changes in compound annual growth rate of FDI inflows before and after the Subprime Crisis of 2007-2008

Table 1.4

Compound Annual Growth rate of FDI Inflows from 2000-2015

Impact of the Sub Prime Crisis on FDI Inflows				
S.NO.	**Financial year (April-March)**	**Total FDI Inflows (in million US $)**	**Computation of Compound Annual Growth Rate (CAGR) for the Pre Sub Prime & Post Sub Prime Crisis Period**	
			CAGR	
1	2001-02	6,130	21.54292	**(CAGR for 2001-2002 to2014-2015**
2	2002-03	5,035		
3	2003-04	4,322		
4	2004-05	6,051		
5	2005-06	8,961		
6	2006-07	22,826		
7	2007-08	34,843	27.99757	**CAGR for 2001-02 to 2006-07**
8	2008-09	41,873		
9	2009-10	37,745		
10	2010-11 (P)	34,847		
11	2011-12(P)	46,556		
12	2012-13(P)	34,298		
13	2013-14(P)	36,046		
14	2014-15(P)	44,291	0.216042	**CAGR for 2007-08 to 2014-15**

Source: -Compiled from: - FDI statistics, Dept. of Industrial policy and Promotion, Ministry of Commerce and Industry, Govt. Of India 2015

Data relating to FDI inflows from 2000-01 to 2014-2015 indicate that there has been a significant rise in the amount of inflows from the year 2000-01 (4029 million US $) to 2014-2015 (44291 million US $) with a CAGR of 21.54%. It can also be concluded that during the whole time period 2011-2012 was the year when highest FDI inflows were received (46556 million US $) and after which it fell to 44291 million US $ in 2014-2015.

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Sector-Wise Foreign Direct Investment Inflows to India

The following table depicts the sector wise distribution of FDI inflows to India.

Table 1.5

Sector-Wise Foreign Direct Investment Inflows to India

Source/Industry	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17 P**
Total FDI	14,939	23,473	18,286	16,054	24,748

SECTORS	FDI inflow (US $ million)	% of total FDI inflow	FDI inflow (US $ million)	% of total FDI inflow	FDI inflow (US $ million)	% of total FDI inflow	FDI inflow (US $ million)	% of total FDI inflow	FDI inflow (US $ million)	% of total FDI inflow
Manufacturing	4,793	32	9,337	40	6,528	36	6,381	40	9,613	39
Financial Services	1,353	9	2,603	11	2,760	15	1,026	6	3,075	12
Retail & Wholesale Trade	391	3	567	2	551	3	1,139	7	2,551	10
Computer Services	843	6	736	3	247	1	934	6	2,154	9
Construction	1,599	11	2,634	11	1,319	7	1,276	8	1,640	7
Electricity and other Energy Generation, Distribution & Transmission	1,338	9	1,395	6	1,653	9	1,284	8	1,284	5
Communication Services	1,228	8	1,458	6	92	1	1,256	8	1,075	4
Restaurants and Hotels	218	1	870	4	3,129	17	361	2	686	3
Business Services	569	4	1,590	7	643	4	521	3	680	3
Miscellaneous Services	509	3	801	3	552	3	941	6	586	2
Transportation	344	2	410	2	213	1	311	2	482	2
Trading	156	1	6	0	140	1	0	0	228	1
Real Estate Activities	444	3	340	1	197	1	201	1	202	1

Education, Research & Development	56	0	103	0	150	1	107	1	131	1
Mining	592	4	204	1	69	0	24	0	129	1
Others	506	3	419	2	43	0	293	2	232	1

Source - FDI statistics, Dept. of Industrial policy and Promotion, Ministry of Commerce and Industry, Govt. of India 2015

If we will have a look at the dominant sector, manufacturing sector has played a crucial role. Manufacturing was the highest contributing sector i.e. 39% where as mining was the least contributing sector that is 1%in 2016-17. In 2012-13, FDI inflow of this sector was 4793 US $ million (32%), then this sector increased its dominance with 9337 US $ million (40%) in 2013-14. However it goes down in 2014-15 with 6528 US $ million (36%), again it declined a little in 2015-16 with 6381 US $ million (40%), again it goes up with 9613 US $ million (39%) in 2015-17.

Sector-Wise Distribution of Outward FDI Flows from India

Distribution of Outward FDI Flows from India: by economic sector, selected years

The following table shows the **Distribution of Outward FDI Flows from India: by economic sector for selected years.**

Table 1.6

Table Distribution of Outward FDI Flows from India: by economic sector, selected years (As % of total outflows)

Sector/ Industry	2000-2001	2001-2002	2006-2007	2011-2012	2016-2017
Manufacturing	27%	72%	63%	47%	24%
Financial Services	1%	0%	0.10%	1%	8%
Non-Financial Services	63%	21%	27%	6%	54%
Trade	7%	2%	4%	9%	10%
Others	2%	5%	4%	37%	4%

Source- Compiled from http://www.eximbankindia.in/sites/default/files/inidas-international-trade-and-investment.pdf ,ccsi.columbia.edu/files/2014/03/profiles_India_OFDI_september_22_final__0.pdf

Major Sector -wise Contribution Of Overseas Investments by Indian Companies :Detailed Break-Up (2001-2016)

Table 1.7

Major Sector -wise Contribution of Overseas Investments by Indian Companies : Detailed Break-Up

(Calculation in Percentage of accumulated Investment)

S.No	Name of the Sectors	2011-12	2016-17
1	Manufacturing	39.0%	26.8%
2	Financial, Insurance and Business services	32.2%	20.9%
3	Wholesale, Retail Trade, Restaurants and Hotels	8.2%	25.2%
4	Agriculture and Mining	6.9%	11.3%
5	Transport, Storage and Communication Services	2.8%	7.5%

6	Construction	2.6%	4.5%
7	Community, Social and Personal Services	1.3%	2.9%
8	Electricity, Gas and Water	6.1%	0.7%
9	Miscellaneous	0.8%	0.3%

Source: RBI Report 2016

The above table and figure shows the major sectors which have been contributing to FDI Outflow in India in FY 2011-2012 till 2016-2017..If we will have a look at the dominant sector, manufacturing sector has played a crucial role with 39 % share in FDI outflow from India followed by Financial & Business Services sector (32%). The third largest contributor in outflow has been Wholesale Trade (8.2%). These three sectors contributed 81% of FDI outflow from India. The other major contributing sectors are Agriculture and Mining (6.9%), Electricity, Gas and Water (6.1) Transport, storage and communication services (2.8%). Miscellaneous sectors were the least contributing sector in the year 2014-2015 with 0.8% share.

VII. CONCLUSION/FINDINGS OF THE STUDY

- To conclude, as India is a developing country, the scarcity of capital coupled with problematic areas like inadequate public health facilities, widespread poverty, unemployment, poor R&D base, obsolete technology, and poor global competitiveness result in hindrances in economic development. FDI acts a major source of bridging the gap between investment and savings, technology up-gradation and the development of basic infrastructure. An important role is played by FDI in capital formation as it helps to bridge the gap between required investment and the domestic savings.
- Further, an evaluation of the FDI policies of the government of India shows that entry to global financial markets was also continuously liberalized for the Indian corporate segment and they were permitted to use special purpose vehicles (SPVs) in global capital markets to fund their cross-border acquirements.
- The impact of policy liberalization is now reflected in international acquisitions by Indian corporate emerging at an accelerated pace. However, the situation is far from perfect, Indian economy has tremendous potentials for FDI outflows.
- The government needs to the economic infrastructure and the interest rates in India are high, hence the low interest rate is not an incentive for Indian capital to flow out from the country in search for greater returns.
- If the value of domestic country currency increases, the access of investment in foreign countries becomes stronger and easier because assets denominating foreign currency reduces their worth, therefore requirement of funds in foreign investment in home currency decreases. Hence, there is need to strengthen the domestic currency in order to promote OFDI.
- Further, the technological proficiency of an organization drives to its ownership-specific benefits which it can capitalize to invest in other nations. Hence, there is a need to strengthen and encourage research and development activities leading to increase in member of patents obtained by Indian firms.

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