TRENDS IN FOREIGN DIRECT INVESTMENT FROM HOST COUNTRIES TO INDIA

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Introduction

In the modern world belief, FDI plays a very important role in the development of the underdeveloped and developing countries. Modern Economics prefer Foreign Direct Investment as one of the main determinant of Economic Growth. The argument in favor of FDI is that there is a typical characteristic in developing and underdeveloped economies that those economies do not have the required level of savings and income in order to meet the level of investment needed to sustain the growth of the economy. In such cases, foreign direct investment plays an important role of bridging the gap between the available resources or funds and the required resources or funds. The rapid expansion in FDI by multinational enterprises since the mid-eighties is attributed to significant changes in technological front, greater liberalization of trade and investment regimes, and deregulation and privatization of markets in many countries.

To attract more FDI, the developing economies open up and liberalize to a significant level. It is domestic investment which was the important factor determining the economic growth prior to liberalization measures. In the post globalization world, the inflow of Foreign Direct Investment (FDI) has been the main concern for the developing countries. FDI are aimed at, acting as a tool of transferring technologies, skills and access to international markets. To attract more Foreign Direct Investment Indian Government came out with various policies. India after liberalizing and globalizing its economy to the outside world in 1991, witnessed a massive increase in the flow of foreign direct investment. The study analyzes the inflow of FDI from various host countries into India.

Literature Review

Balasubramanyan et al. (1996) found that FDI accelerate the economic growth of the host country and its impact is relatively stronger for the countries which have outward oriented trade policies. De Mello (1999) suggested that FDI has the greater importance in improving the economic growth and it depends on its exogenous factors like skilled labor and its impact on country and condition specific.

Todaro and Smith (2003) argue that the flow of FDI fills the gap between desired and domestic investment level and also increases the tax revenues, effective management and technology as well as skilled labor in the host countries.

According to the study by Fedderke and Romm (2006) and Nonnemberg and Caroso de Mendonca (2004), the economic growth is one of the determinant responsible for higher FDI inflow. While Alfaro (2003) has found ambiguous relationship between FDI and GDP and also argued that its impact on host country varies according to the types of policies that host country adopts for its trade and FDI regulations.

Adegbite and Ayadi (2010) assert that FDI helps in filling up the domestic revenue-generation gap in developing economy because most developing economies don't have sufficient capital to generate revenue for meet their expenditure needs. Akinlo (2003) and Adelegan (2000) found that foreign funds inflow is not statistically significant to increase the level and rate of economic growth in Nigeria and mostly in developing host countries. Furthermore FDI is negatively related with domestic investment. This result is drawn using seemingly un-related regression (SURE).

Objectives

This study is based on the following objectives –

- To identify the countries from which India received largest FDI inflows during April 2000 to December 2017
- To analyze the trends in FDI inflows from top seven countries during 2002-03 to 2017-18.

Methodology

Source of Data: The study is based on published sources of data collected from the Reserve Bank of India's Handbook of Statistics of Indian Economy, Department of Industrial Policy and Promotion (DIPP) and Economic Survey of India.

Period of Study: The study is focusing on the inflow of FDI into India since 2000. Therefore study is undertaken for a period of 17 years from April 2000 to December 2017.

Countrywise Inflow of FDI

FDI refers to the funds flow from source country or host country towards destination country or home country. The researcher considered India as the home country and other countries of the world as host countries. The top ten countries which invested in India during April 2000 to December 2017 were considered for the study.

Table 1: Top 10 Countries from which India received FDI Equity Inflows during April 2000 to December 2017

S. No.	Name of the Country	Amount of FDI Inflows		% of Inflows
		(in Rs Crore)	(in US$ million)	
1	Mauritius	671,733.79	124,985.94	33.97
2	Singapore	374,434.38	63,803.31	17.34
3	Japan	150,399.40	26,938.34	7.32
4	UK	130,198.81	25,311.07	6.88
5	Netherlands	132,529.46	23,064.66	6.27
6	U.S.A	121,773.91	22,066.83	6.00
7	Germany	58,566.93	10,710.29	2.91
8	Cyprus	48,872.11	9,488.49	2.58
9	France	33,584.90	6,182.40	1.68
10	UAE	30,242.97	5,332.37	1.45

Source: Department of Industrial Policy and Promotion

It was observed from Table 1 that the largest contributor of FDI to India is Mauritius. It accounts for 33.97 percent of Foreign Direct inflows into India. India had received Rs.671,733.79 Crore from Mauritius as FDI. The second largest country which has made Foreign Direct Investment in India is Singapore with Rs.374434.38 Crore. The gap between Mauritius and Singapore is very large. Singapore has invested roughly half the amount of Mauritius during the study period. Japan was the third largest investor in India with Rs.150399.40 Crore accounting for the share of 7.32 percent. United Kingdom, Netherland, USA were respectively the next largest investors in India with 6.88 percent, 6.27 percent and 6 percent share of FDI. Germany and Cyprus had share of 2.91 percent and 2.58 percent in India's foreign direct investment. France and UAE had share of less than 2 percent in India's foreign direct investment.

The top ten countries which have made foreign direct investment in India accounted for 86.4 percent. The remaining countries only account for 13.6 percent. According to the United Nations classification, among the top ten countries, seven countries, namely, Japan, United Kingdom, Netherlands, USA, Germany, Cyprus and France are developed countries from which FDI flows into India. They account for 33.64 percent of the overall FDI inflows into India. India had received 52.76 percent of the FDI from three countries namely, Mauritius, Singapore and UAE which are listed in top ten countries from which India received FDI. Mauritius and Singapore alone accounts for 51.31 percent of FDI inflows into India. These tax havens and offshore financial centres (OFCs) together made up just over half of all FDI inflows to India.

Table 2: Year wise ranking of countries based on FDI inflow 2002-03 to 2017-18

S.No.\ Rank	1	2	3	4	5	6	7
2002-03	Mauritius	Japan	U.K	U.S.A	Netherlands	Germany	France
2003-04	Mauritius	Netherlands	U.S.A	U.K	Germany	Japan	France
2004-05	Mauritius	U.S.A	Netherlands	Singapore	Germany	Japan	France
2005-06	Mauritius	U.S.A	Germany	Singapore	U.K	Japan	Netherlands
2006-07	Mauritius	U.K	U.S.A	Netherlands	Singapore	UAE	Germany
2007-08	Mauritius	Singapore	U.K	U.S.A	Cyprus	Japan	Netherlands
2008-09	Mauritius	Singapore	U.S.A	Cyprus	Netherlands	U.K	Germany
2009-10	Mauritius	Singapore	U.S.A	Cyprus	Japan	Netherlands	U.K
2010-11	Mauritius	U.K	Singapore	Japan	Netherlands	U.S.A	Cyprus
2011-12	Mauritius	U.K	Singapore	Japan	Cyprus	Germany	Netherlands
2012-13	Mauritius	Singapore	Japan	Netherlands	U.K	Germany	France
2013-14	Singapore	Mauritius	U.K	Netherlands	Japan	Germany	U.S.A
2014-15	Mauritius	Singapore	Netherlands	Japan	U.S.A	U.K	Germany
2015-16	Singapore	Mauritius	U.S.A	Japan	Netherlands	UAE	Germany
2016-17	Mauritius	Singapore	Japan	Netherlands	U.S.A	U.K	Germany
2017-18	Mauritius	Singapore	Japan	U.K	Netherlands	U.S.A	Germany

Source: Department of Industrial Policy and Promotion

The study analyzed the ranking of the countries based on FDI inflows for the period 200-03 to 2017-18. The study period included 16 years. It was observed from Table 2, Mauritius was ranking first in 15 years during the study period. India received highest FDI from Singapore once during the study period, i.e. 2015-16. It was also observed during 2002-03 and 2003-04 more western countries were leading in investing in India. Japan, U.K. and U.S.A. were in second, third and fourth rank respectively. In 2003-04, Netherlands occupied second rank in FDI inflows into India. Singapore entered into top seven ranks since 2004-05. During 2007-08 to 2009-10 Singapore arrived as the second highest contributor of FDI to India. In 2010-11 and 2011-12 U.K. occupied second position in FDI flows to India. After 2012-13, Mauritius and Singapore were dominating in FDI inflow into India. The western developed countries share in India's FDI started to shrink since 2012-13.

Conclusion

The primary objective of the Foreign Direct Investment is to elevate the infrastructure of the skilled developing or underdeveloped nation. For a country which has unskilled population, FDI's contribution is to impart the skills needed for the upliftment of the country. Providing the climate for such investment would have a great impact on economy. While it is important for India to attract FDI, it is pertinent to ask the question whether a policy to attract FDI should be careful in distinguishing between the kind of FDI it wants to attract. All FDI are not the same and are not attracted by the same factors. The prime objective must be to align FDI with national development objectives, consistent with being an open economy.

However, with respect to India, the story is quite uninteresting. It is neither technology intensive by default nor it received technology transfer from the developed nations especially in the industrial sector because of the outcome of FDI. It is understood that the black money in India is being rerouted to the country via Mauritius with the help of Double Tax Avoidance Agreement (DTAA). Mauritius is not a developed country and the occurrence of sufficient technology transfer to India is not justifiable from this island. This ensures that currently one third of the FDI i.e. 33.97 percent of the overall FDI is not for the purpose of technology transfer and Industrial growth. It would be a wise decision to attract FDI from countries which are technology intensive and not just a capital transfer. Clearly, these are not the original sources of external financing with the offshore financial centres responsible for a degree of round-tripping of funds from India and transshipping of funds from third countries. The funds from these countries are poor in quality and they can't provide technological transfer. Qualitative FDI are the only game changer in the economy. Steps need to taken towards receiving qualitative FDI.

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