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Top Sectors and Countries of FDI Inflows in India

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Abstract

India has witnessed increased FDI inflows over the years. The investible funds flow from funds surplus countries to developing world in search of higher returns. The distribution of FDI across sectors remained skewed and is concentrated to certain sectors. This paper aims to study the pattern of FDI inflows in terms of top investing countries and the top sectors attracting FDI inflows. The major sector that attracts bulk of FDI is service sector. There remains a scope for attracting greater FDI from countries and investments in real estate, manufacturing sector and health care.

Keywords: FDI, Growth, Sectoral Investments

1. Introduction

Investment is crucial driver of growth. The returns to investment is higher when it flows from developed countries who are abundant in investment funds to developing countries where there are availability of production resources but lacks investment funds. Foreign direct investment refers to physical investment by a foreign country having a controlled ownership in the host country. It is not volatile as foreign portfolio investment and has long term implication for country's development. It leads to strengthening of infrastructure, adds to GDP, creates employment opportunities and expands exports. India has seen a tremendous increase in FDI inflows over the past many years. During April-December 2017 the total FDI inflows were US \$35.94 Billion. The cabinet in its union budget has approved 100% FDI through automatic route for single brand retailing and also 100% FDI in construction sector and 49% investment in air India by foreign airlines are also permitted under the approval route. IKEA in February 2018 declared its investment plan of US \$ 612 million in the Maharashtra State to establish multipurpose stores. DIPP also approved Supr Infotec FDI proposal in December 2017 in retail sector.

There exist positive relationship between FDI and Growth. According to Athrey and Kapur (2001) ^[1] growth led FDI is more likely than FDI led Growth. FDI has emerged as a source of economic and sustainable development in developing countries (Kaur, J. 2014) ^[3]. Maximum global foreign investments are attracted by developed countries than developing or underdeveloped countries. (Singh, J. Etal. 2012) ^[4]. The existing studies shows that it is thus important to understand the sectors and countries that attracts the maximum foreign investment so that policies can be framed so as to attract maximum inflow in the country.

Objectives

Since there is a marked increase in FDI inflows and many policy changes and FDI announcements have taken place in the recent pasts. We tried to locate:

- The pattern of FDI inflows distribution in terms of sectoral analysis
- Top countries investing in India.

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Top Sectors attracting highest FDI Inflows

Service sectors (18%) attracts the major share of FDI inflows. This generates employment for the educated section of the society. The major part of investment goes in financial and non-financial, insurance, banking, BPO'S and KPO's. The second in ranking is the computer software and hardware sector which attracts 8 % of FDI inflows. There is a huge potential of growth and investment in this sector as the role of Information technology is increasing and India has huge potential for technological advancement. The usage of smartphones has increased tremendously and we see a large inflow of FDI in telecommunication sector (8%). There lies a huge scope of innovation and the investors are exploring the market. Government must aim at attracting and promoting the inflows into all major IT cities and must emphasis on technical knowledge to harness the benefits. Construction majorly townships and housing have attracted around 7% of FDI inflows. There is huge scope of increased investment as there lies potential in this market for growth and big returns. However the construction concerned with infrastructure activities attracts 3% of FDI inflows. It is important to encourage more investment in this area through flexible and supporting policies by the government as infrastructure development is important to tackle many problems that creates hurdle in the growth process. Automobiles (5%), chemicals (4%), pharmaceuticals (4%) and power (4%) are other industries that attracts highest share of FDI.

There still remains huge potential to attract foreign investment especially in the field of retail trade, health and education. India is growing country with huge market for these sectors. Encouraging foreign investment in these sectors will further promote growth and quality of services.

Table 1: Sectors attracting highest FDI Inflows in 2017-18

Sector	FDI Inflows: April to March 2017-18 (US \$ Millions)	Percentage Share
Service Sector	6709	18%
Computer Software and Hardware	6153	8%
Telecommunication	6212	8%
Construction Development (Township, housing)	540	7%
Trading	4348	5%
Automobile	2090	5%
Chemical	1308	4%
Drugs and Pharmaceuticals	1010	4%
Power	1621	4%
Construction Infrastructure Activities	2730	3%

Source: DIPP Factsheets

Top countries investing through FDI in India

The maximum foreign direct investment inflow is from Mauritius (34%). The high investment is motivated by not just high returns but the tax benefits aswell. The second highest inflows are from Singapore (18%). A large investment from Singapore goes to service and real estate sectors. Japan, United kingdom, Netherlands and USA attracts 7%, 7% and 6% share respectively. Highly developed countries are investing big and are among the top share-holders of FDI inflows. It points out towards the attractiveness and potential India possess and must work ahead on policy, infrastucture³ and governance front to

ensure smooth implementation of the investment projects. Other top countries with 2 to 3 percent share in total FDI inflows are Germany, Cyprus, France and UAE.

Table 2: Share of Top FDI investing countries in 2017-18

Sector	FDI Inflows: April to March 2017-18 (US \$ Millions)	Percentage Share
Mauritius	15941	34%
Singapore	12180	18%
Japan	1610	7%
U.K	847	7%
Netherlands	2800	6%
U.S.A	2095	6%
Germany	1146	3%
Cyprus	417	3%
France	511	2%
UAE	1050	2%

Source: DIPP Factsheets

Conclusion

There is vast variation in inflow of FDI to different sectors. Few sectors have attracted the major share of total investment. There remains a huge scope to attract more investment specifically in construction both housing townships and infrastructure and opening creating more opportunities to attract greater investment in aviation, tourism, retail, education and Health. Many developed countries like USA, UK, Germany, Japan has a significant share in investments in India but the share is majorly dominated by Mauritius which occurs to be more due to tax relief and not just the high returns. There remains a scope to attract and increase the share of other major players (countries) in total FDI inflows through improvement in infrastructure, Governance, promoting ease of business and encouraging automatic approval routes for quick and hassle free investment procedures. There remains a scope of greater investment in service sector and real estate construction activities and also allowing FDI in industrial growth by promoting FDI in development and production of manufactured goods and encouraging better business environment.

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