

Chapter 15

Regional and Sectoral Disparities in Inflow of FDI in India: An Empirical Analysis

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ABSTRACT

During the last two decades, Foreign Direct Investment (FDI) has become increasingly important in the developing world, with a growing number of developing countries seeking in attracting substantial and rising amounts of inward FDI. Furthermore, FDI has become the most important source of finance that can contribute to economic development. Recognizing this, all the governments want to attract it. India as a developing country is not an exception in this regard therefore study the different aspects of FDI can be helpful for policy makers in macro as well as micro level. Since 1990, FDI has been considered as the most powerful driver of economic development. While India has seen a steady increase in FDI inflows in the post-reform period, therefore, this study tries to analyze the regional and sectoral disparities in Inflow of FDI in India since 1990. The analysis showed that there is a disparity between states in India and it also indicates a shift from primary and secondary sectors to tertiary sectors and pervasive computing areas.

INTRODUCTION

FDI has been instrumental in the economic growth of the developing countries. To what extent it is to be invited depends upon the type of economy. If it is an open economy flow of FDI is high. Since the under developed countries are having lack of capital, certainly the foreign capital will make a dent in the

process of economic development of that country. Besides most important driver of the FDI and internationalization of production net work owes to the increasing globalization of firms consequent on the liberalization moves of most of the countries. So far as, Indian economy is concerned the welcoming of the FDI is limited. But after liberalization of the economy the inflow of FDI into India is very high.

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It is a misleading opinion that India is new to foreign capital. Foreign capital had a substantial presence in Indian industry prior to 1947, and was mostly concentrated in the primary sectors and services. Foreign firms mostly British dominated India's mining, plantations, trade and much of the fledging manufacturing base.

- In the early post independence years as India turned abroad for both technology and capital.
- By late 1950's, Indian government invited foreign capital in many sectors like drugs, aluminum etc.
- During 1960's also FDI was concentrated in manufacturing.
- By end of the 1960's around 60% of FDI was concentrated in manufacturing industries.
- But after math of 2 famines and the devaluation of rupee in 1960's there was a hardening of policy foreign oil, majors were nationalized in early 1970's.

Thus the Foreign Exchange Regulation Act (FERA 1973) was its outcome. By mid 1980's growing concern about stagnation and technological obsolescence in Indian industry led to push for economic reform and regulation.

The 1990's began a major crisis. In the wake of gulf war, the consequent expulsion of Indian expatriate laborers from Middle East, foreign exchange remittances fell. As the balance of payment position has deteriorated. Thus after the serious crisis we opened up our economy in 90's and thus our FDI increased.

To fully realize the country's immense economic potential the government of India launched the economic reforms programmed in July 1991. These reforms have ascertained the potential growth of the economy and stimulated international trade, out sourcing and FDI, in a way that according to the world investment report, for the

year 2005, India has attracted FDI of US\$ 5.33 billion in 2004 from US\$ 4.27 billion in 2003; in 2005-06 the FDI inflows touched 8 billion. The target rate of FDI inflows in the eleventh plan will be 16 billion. (WIR 2006)

India's share in world FDI is minor, notably when considering its size as the entire world is watching the miracle growth of India and china. China opened up to FDI a decade before India did. Indeed, the opening of the India is relatively new and the history of its FDI on a large scale is very short, India has to go a long way for enhancing the existing volume of FDI inflows to meet its financing development needs.

Since 1990, FDI has been considered as the most powerful driver of economic development. And also India has seen a steady increase in FDI inflows in the post reform period. Therefore objectives of this study are as follows:

- To analyze the cause and consequences of regional disparities in Inflow of FDI in India since 1990.
- To trace the reasons for the sectoral disparities in Inflow of FDI in India since 1990.
- To discuss the recent emerging trends in FDI in India
- To highlight the major investing countries in India and reasons behind that

BACKGROUND

Importance of the Study

There has been very little discussion on FDI in Indian context. There is a need to document and analyze the concepts, problem, policies, and effectiveness of the FDI relating to economic growth. As we know the new economic policy has produced strong impact on technology, licensing, FDI, competitive law etc. It is true that reforms may create some modification in the FDI issues.

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