

# Foreign Direct Investment in Gujarat: Recent Trends

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**Abstract:** The current paper reviews the recent trends in FDI in the Indian state of Gujarat. It tries to highlight the state's relative position vis a vis other states of the country with respect to FDI. An attempt has been made to point out the main factors responsible for the growing FDI in Gujarat.

The paper has been divided into five parts. The introductory section describes Gujarat's relative economic position in comparison to the other states of the country. The second section examines the meaning and types of foreign investment. The third section describes the trends in FDI in Gujarat. The fourth section explains the main reasons responsible for rise in FDI in Gujarat. The last section includes the concluding remarks.

**Index Terms:** Foreign Direct Investment, Foreign Portfolio Investment, Greenfield FDI, Brownfield FDI, Gujarat, India.

## I. INTRODUCTION:

Gujarat is one of the most industrialized and developed states of India. The total GDP (Gross Domestic Products) of Gujarat in the year 2015 was Rs.8.76 Lakh Crores (US \$140 Billion) which was the fourth highest GDP in the country. Moreover, Gujarat topped in employment generation with the least unemployment rate in the entire country which was only 1.2%. According to the Global Prosperity Index report published by Legatum Institute, Gujarat topped the chart of states having the best social capital out of various states of 142 countries in the year 2012.

Foreign Investment has been constantly increasing in Gujarat due to progressive and favorable economic, social and political environment. The spectacular increase in FDI is further expected to stimulate the growth rate of the state.

## II. MEANING AND TYPES OF FOREIGN INVESTMENT:

Before delving into the reasons and impact of this phenomenal increase in FDI in the state, it would be useful to understand the meaning and types of foreign investment in general and foreign direct investment in particular.

When a foreign company or an institute invests in our country with an intention of earning profit, it is known as Foreign Investment.

Foreign Investment is basically divided into two parts:

1. Foreign Direct Investment, FDI
2. Foreign Institutional/Portfolio Investment, FII/FPI.

Under Foreign Direct Investment, the foreign company establishes unit or factory in the host country and actually produces goods or services with active participation in management and decision making, whereas under Foreign Portfolio Investment, the foreign company invests in the shares of the companies of the host nation (typically less than 10% of the total capital of the firm). From the host country's perspective, FDI is more desirable than FPI. Foreign Investment made through FPI is mostly for the short-term. It is highly uncertain and unstable by nature. Foreign companies can sell-off shares at any point of time and withdraw their investment. This can cause abrupt economic and financial crisis in host country. The financial crises in East Asia in the year 1997 were mainly the result of excessive amount of FPI (which is also known as hot money) and an unexpected withdrawal of it thereafter. On the other hand, foreign investment by way of FDI is more stable and long-term. Foreign companies cannot suddenly withdraw the investment from the host country.

The developing nations often attempt to attract FDI mainly due to its stable nature and numerous other advantages.

FDI is further divided into following two types.

1. Greenfield FDI
2. Brownfield FDI

Greenfield FDI: When the foreign company sets up a new factory or plant in host country for undertaking production, it is known as 'Greenfield FDI'.

Brownfield FDI: The cross-border mergers and acquisitions that involve acquiring an existing enterprise in the host country by a foreign investor is called a 'Brownfield Investment'.

### III. FDI IN GUJARAT IN RECENT YEARS:

There has been an impressive growth in FDI in India during the last two years. India got more FDI compared to that of China during 2015-16 and 2016-17. The remarkable increase in FDI in India can essentially be attributed to increase in the market size due to rising per capita income of the growing population, abundance in natural resources and cheap labour.

A glance at the FDI in different states of India reveals that Delhi, Maharashtra, Tamil Nadu and Karnataka attracted highest FDI respectively in 2015-16. Gujarat was at the fifth position in terms of FDI inflows. However, Gujarat stood at third position in the year 2016-17 leaving Tamil-Nadu and Karnataka behind.

Amount in Rupees Crores (US \$ in Millions)						
S. No.	RBI's - Regional Office	States Covered	2014-15 (April- March)	2015-16 (April – March )	2016-17 (April – March )	Cumulative Inflows (April, 00 - March, 17)
1	MUMBAI	MAHARASHTRA, DADRA & NAGAR HAVELI, DAMAN & DIU	38,933 (6,361)	62,731 (9,511)	131,980 (19,654)	547,733 (102,283)
2	NEW DELHI	DELHI, PART OF UP AND HARYANA	42,252 (6,875)	83,288 (12,743)	39,482 (5,884)	371,794 (68,037)
3	CHENNAI	TAMIL NADU, PONDICHERRY	23,361 (3,818)	29,781 (4,528)	14,830 (2,218)*	133,378 (23,760)
4	BANGALORE	KARNATAKA	21,255 (3,444)	26,791 (4,121)	14,300 (2,132)*	123,212 (22,374)
5	AHMEDABAD	GUJARAT	9,416 (1,531)	14,667 (2,244)	22,610 (3,367)*	91,074 (16,652)
6	HYDERABAD	ANDHRA PRADESH	8,326 (1,369)	10,315 (1,556)	14,767 (2,195)	74,322 (13,766)
7	KOLKATA	WEST BENGAL, SIKKIM, ANDAMAN & NICOBAR ISLANDS	1,464 (239)	6,220 (955)	332 (50)	21,179 (3,985)
8.	KOCHI	KERALA, LAKSHADWEEP	1,418 (230)	589 (90)	3,050 (454)	9,789 (1,755)
9	JAIPUR	RAJASTHAN	3,237 (541)	332 (50)	1,111 (165)	8,237 (1,480)
10.	BHOPAL	MADHYA PRADESH, CHATTISGARH	601 (100)	518 (80)	515 (76)	7,129 (1,372)

SOURCE: FACT SHEET ON FOREIGN DIRECT INVESTMENT (FDI) FROM APRIL 2000 to MARCH, 2017,  
Department of Industrial Policy and Promotion

Gujarat has always topped the list of “states with ease of creating and doing business”. It has over the years been a favorite investment destination of foreign investors. According to figures published by Department of Industrial Policy and Promotion (DIPP), Gujarat received \$ 3.367 Billion ( Rs. 22,610 crores) FDI in the year 2016-17 which was 54% more than \$ 2.24 Billion (Rs. 14,667 crores) in the year 2015-16. Gujarat had consistently received 2% to 3% of total FDI in India since many years. However, it received a whopping 7.75% of the total FDI (in India) in the year 2016-17.

Gujarat topped the list of 10 most sought-after destination states for foreign direct investment (FDI) in 2015 in a comparison drawn between India and China. A new report by the ‘Financial Times Group's think-tank-FDI Intelligence’ showed Gujarat at the top of the list. In 2011, Gujarat was ranked 14th in the same list.

FDI into Chinese and Indian States by Capital Investment (\$ bn)					
Destination State	2011	2012	2013	2014	2015
Gujarat (India)	3.77	2.78	0.82	2.01	12.36
Shanghai Municipality	12.69	14.73	10.65	9.69	10.57
Jiangsu(China)	14.21	8.11	10.18	11.24	9.53
Maharashtra (India)	6.58	6.86	6.73	6.58	8.28
Andhra Pradesh (India)	4.07	1.99	1.95	2.42	6.10
Karnataka (India)	5.58	3.07	2.86	3.05	4.98
Guangdong (China)	7.68	5.16	8.13	3.96	4.49
Anhui (China)	1.89	0.92	1.90	1.38	4.03
Tianjin Municipality (China)	2.28	2.37	2.46	5.95	3.27
Jharkhand (India)	0.00	0.03	0.20	0.00	3.20
Others	92.11	63.81	63.36	55.46	56.23
Total	150.86	109.82	109.25	101.75	123.05

Source: ‘Financial Times Group's think-tank-FDI Intelligence’

The highest FDI in Gujarat has been received in the sectors like oil and gas, infrastructure, food-processing, information technology, gems and jewelry, bio-technology etc.

#### IV. FACTORS RESPONSIBLE FOR GROWING FDI IN GUJARAT:

There are multiple factors responsible for growing FDI in Gujarat. First of all, Gujarat has a strong infrastructure compared to the other states of India. It has a well-developed network of roads and railways. It has the maximum number of airports in comparison with any other state of the country. Foreign investors have an easy access to high quality professional services in Gujarat. Further, the foreign companies have easy access to raw materials, spare parts and components as Gujarat has a well-developed industry producing intermediate goods. The availability of the skilled labor in abundance in the state is yet another incentive. In addition, the state has a huge locational advantage. The state has proximity with African and West and Mid-East Asian markets.

Besides these factors, various attempts of central Government in attracting FDI have also benefitted Gujarat a lot. Government has given permission for 100% FDI through automatic route in many sectors. Government has also marketed India as an attractive investment destination through ‘Make in India’ scheme. All these initiatives have contributed to increase in FDI in Gujarat.

According to Mamta Verma- Industries Commissioner of the State, FDI has surged dramatically in Gujarat due to the sector-specific policies announced by the State Government. There has been a remarkable growth in FDI in automobiles, engineering, metallurgy and auto-components. A lot of FDI has arrived in Gujarat due to the ‘Vibrant Gujarat Summit’ organized since 2003. Japan has been one of the countries with heavy investment in Gujarat in recent times.

The rise in FDI in Gujarat is expected to increase employment opportunities for the youth in the state. The domestic producers are likely to get the foreign technological externalities out of the growing FDI. The producers of the state will have healthy competition

which will increase their productivity and efficiency. The buyers can expect high-quality products and value for their money in the context of growing competition.

Imports are likely to decline. Foreign exchange reserves are likely to grow with an overall favorable impact on the balance of payments. The state government is also claiming benefits for the farmers and rural regions due to the permission of FDI in agro-processing and other allied activities.

#### V. Conclusion:

Having described the possible advantages of FDI, it must be recognized that FDI may result into number of problems as well. However, most of the modern economists unanimously believe that the benefits of FDI by far outweigh its limitations for the host country. Hence every state must continue its attempts to attract FDI, though by putting in place various safeguards to protect the domestic interests. Only the years to come will confirm the extent of contribution of FDI in the economic progress of the state.

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