

FOREIGN DIRECT INVESTMENT ENVIRONMENT IN TAMIL NADU

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ABSTRACT

Foreign Direct Investment in India has created an opportunity to expose India to the world, this era began in 1991 due to New Economic Policy introduced by P V Narasimha Rao's prime ministers. This also led to Liberalization, Globalization, and Privatization (LPG). Tamilnadu's "Knowledge Hub of Asia" also creates a great opportunity for the FDI Inflow and Outflow in many fields, which is also developing Tamilnadu's economy to a greater extent. This research paper deals with the FDI environment in Tamilnadu. (i.e., Tamilnadu economy, contribution to the economy, sector-wise, transparent industrial policies which attract host countries to invest in Tamilnadu)

Keywords: *Foreign Direct Investment, Economic Growth & Development, GDP*

INTRODUCTION

Foreign investments have been very helpful for developing countries in the last two decades. There are various sectors in which foreign players are interested to enter and the retail sector is one the most attractive sectors for them. The retail sector has been contributing a significant amount to the GDP of India. Foreign direct investment helps in the economic development of a country. India is a growing economy and is considered an attractive market to invest in, especially in a rapidly growing retail market. However, there are some policy issues and restrictions on foreign direct investment in the retail sector in India. Even after so many years of debate, the regulations are still changing slowly with lots of uncertainties. Foreign investors are having close eyes on India and are ready to enter it. But it is still having restrictions, socio-economic risks, and uncertainties. The Gross State Domestic Product (GSDP) of Tamil Nadu for 2022-23 is projected to be Rs 24, 84,807 crore (at current prices), a growth of 14% over the revised estimate of GSDP for 2021-22 (Rs 21, 79,655 crores).

REVIEW OF LITERATURE

Foreign Direct Investors look into various factors before making compact decision in a country. Foreign Direct Investment (FDI) is an investment made by a company in a country other than that in which is it based, and are investments in the country domestic goods and services. The Foreign Direct Investments various factors are influencing and determining this study.

THE RELATIONSHIP BETWEEN THE FOREIGN DIRECT INVESTMENTS IN Tamilnadu

Leena Kausha & Ajit Kaushal (2018) in their study “FDI in Retail Sector in India: A Global Perspective” FDI in retailing and argue that it could be a potent source of both equity and growth for the agricultural sector in India. The study provides supporting evidence to the argument with the case study of PepsiCo that is engaged in both production and distribution in India .The study suggests that the MNCs could be a potent source of technology and knowhow to the Indian farmers. MNCs such as PepsiCo actively collaborate with Indian farmers to promote sustainable farming and efficiency in agriculture. We believe that the government of India should not prohibit FDI in multi-brand retail as it could contribute to growth and development of the country and will not be a threat to indigenous ‘kirana’ shops.

Shilpa Garg & Rupal Arora (2014) in their study “Foreign Direct Investment in Indian Retail Sector: A Review of Literature” have stated FDI in retail sector has been an important topic of discussion due to the controversial issues related to it. This study various aspects of FDI in retail sector has been reviewed. The role and impact on Indian economy as well as its strengths and threats have been studied. The need of opening up of FDI in single and multi brand retail and their policy implications have been seen through various studies in this area. The study shows that allowing healthy FDI in the retail sector would lead to a substantial surge in the country’s GDP and overall economic development but it should be backed by appropriate reform measures. The examined of the economics over the period of the study and use the system generalized method of moments (GMM) to establish the relationship between country-level corporate governance and foreign direct investment. The African economies characterized by firms with high ethical values tend to attract a great deal of foreign direct and economy is associated with effective corporate boards, it tends to attract much foreign direct investment (**Otuo Serebour & Christopher Gbettey 2021**). Domestic and foreign direct investment in Ghanaian agriculture” the effects of Foreign Direct Investment (FDI) into agriculture on domestic investment into agriculture. The relationship between foreign direct investment and domestic investment at the aggregate national and regional levels. However, the evidence for the relationship has been conflicting. That for agriculture is rare (**Justice Gameli Djokoto & Francis Yao Srfenyoh 2014**) Multinational Activity in Emerging Markets: How and When Does Foreign Direct Investment Promote Growth? Among the prominent economic trends in recent decades is the exponential increase in flows of goods and capital driven by technological progress and falling of restrictions. A key driver of this phenomenon has been the cross-border production, foreign investment, and trade both final and intermediate goods by multinational corporations.

OBJECTIVES OF THE STUDY

- ✓ To Study the Tamilnadu Economy
- ✓ To know the Contribution to the economy by sector
- ✓ To analyse the impact of FDI on Tamilnadu Economy
- ✓ Favoring points to invest in Tamilnadu
- ✓ Industrial policies

The hypothesis of the study

The main objective of this paper is to study the Tamilnadu economy and its favorable environment for FDI, which leads to the development of Tamilnadu's economy.

H₁: FDI leads to the development of the Tamilnadu Economy

H₂: Tamilnadu is the better place for FDI

METHODOLOGY OF THE STUDY

The present study is only based on secondary data and is carried out to examine the environment of foreign direct investment in Tamil Nadu.

ANALYSIS AND INTERPRETATION

Tamilnadu Economy

Tamilnadu has a total area of 130,058 sq km, 30% of the total geographical area of India. It is the 11th largest state in India. It is the 11th largest state in India and comprises 38 districts. The GSDP (Gross State Domestic Product) is a constant growth of 9.47% in the FY 2020-21. Tamilnadu is the 2nd largest GDP (Gross Domestic Product) state in India. GSDP is expected to grow @ 6- 6.8% in 2023-24, which is slightly less than India's GDP estimate of 6.8 per capita GSDP during 2023-2024 was Rs. 249,517 at constant prices. Tamilnadu's per capita income in the Indian rupee terms is in 2nd place. The contribution of the primary, secondary, and tertiary sectors of Tamilnadu GSDP is 26.29% of the composition of India's GDP 11.5 (Primary), 37.29 (Secondary), and 50.96 (tertiary sector). Tamilnadu is the largest hub of manufacturing sector industries in India. HAL, NAL, BHEL, BEML, and HMT are based in Tamilnadu. Many of India's premier science and technology research centers, such as the Indian Space Research Organisation, CPRI, BEL, and CFTRI.

Contribution to the economy sector wise

- Agriculture and Allied sectors grew up to 18.8 percent in 2021-22. In 2023. It is expected to grow at a rate of 5.8% having been affected by a severe drought. Tamilnadu has been credited by the planning commission for presenting a separate agriculture budget.
- Tamilnadu is the largest producer of bananas and coconuts in the whole country. It is also a leading state in the production of other crops such as sugarcane, cotton, kombu, maize, rye, groundnut, and oil seeds. Income generated from horticulture is over 30.4 % of total agriculture income. In floriculture, Tamilnadu occupies 2nd position in India in terms of production.
- Tamilnadu is the home of the largest bio-cluster in India with total revenue of over Rs. 14 billion and 158 and 320 companies working on biotechnology in India.
- Tamilnadu has a headcount of over 6800 scientists involved in biotech research
- Tamilnadu has the largest number of Information technology companies located in the city which contributed 33% of India's IT exports of Rs.1, 44,214.

Impact of FDI on Tamilnadu Economy

The advantages of foreign direct investment in Tamilnadu are, it has helped to generate employment opportunities for people in the state. Further, the advantages of Foreign Direct Investment in Tamilnadu are, it has led to the growth in exports from the state to foreign countries.

The effectiveness and efficiency depend upon the investor's perception, if the investment is for a purpose of the long term then it contributes positively towards the economy, on the other hand, if it is in the short term to make a profit then it may be less significant.

Favoring points to invest in Tamilnadu

Factors attracting FDI in Tamilnadu:

- ✓ The state government is investor friendly; it provides the facility of the single window clearance to ensure fast-track approvals for FDI
- ✓ The infrastructure available is of world-class standard.
- ✓ The state provides excellent logistic support and connectivity to investors.
- ✓ The state provides investors with one of the biggest and fastest-expanding markets in the country.
- ✓ Highly skilled manpower is abundantly available in Tamilnadu.
- ✓ Tamilnadu ranks top 5 industrially developed states in India.
- ✓ IT, Cement, Food Processing Industries, Automobiles, Pharmaceuticals, electrical and communication, and Apparel are achieving to a greater extent.
- ✓ International companies that have invested in Tamilnadu: HP, Compaq, Accenture, GE, Toyota, Coca-cola, Warner-Lambert, Italicemnt, Van Heusen, etc.

Favoring infrastructure in Tamil

Infrastructure	
Airport Ports	7 Airports with 4 International airports, 3 Domestic airports
National highways	5,324 km
State highways	11,830 km
Railways	5,952 km
Coastlines	1,076 km
Metro	45.046 km

Source: Secondary

Facilitating fast-track approvals for key investments

Project Approval Committee	Investment Range
1. State High-Level Clearance (SHLCC)	More than 500 crores
2. State Level Single Window Clearance (SLSWCC)	More than Rs. 15.00 Crores and less than Rs. 500.00 Crores

Source: Secondary

FDI STATISTICS IN TAMILNADU

RBI's Regional Office (RO) - Tamilnadu) (As of 31.12.2008)

Cumulative FDI inflows and approvals during 1991-2021 (up to December)

- FDI equity inflow is US\$ 173.3 billion, including the amount of acquisition for existing shares (up to 1999), RBIs- NRI Schemes, stocks swapped and advance pending for the issue of shares.
- FDI approvals during the last Twenty-two years are over US \$ 847 billion.

Share of RBI's Regional Office (RO) Tamilnadu in FDI inflows:-

- Tamilnadu ranks 4th
- The percentage share with total FDI inflows is 19%
- Total FDI approved for Delhi US\$ 49.98 billion

In FDI approvals:-

- Tamilnadu ranks 4th
- The percentage share with total FDI approvals is 7.34%
- The total FDI approved for Delhi is US\$ 49.98 billion

Top five countries invested in Tamilnadu: FDI inflows (from January 2000 to December 2008):

Mauritius	28.0%
Singapore	22.0%
USA	8.0%
Netherlands	7.0%
Germany	5%

Source: Secondary

FDI approvals (from August 1991 to December 2008)

- Singapore (27.01%)
- USA (17.94%)
- Mauritius (15.98%),
- Netherlands (7.86%)
- Switzerland (7.31%)

Top sectors attracted FDI inflows & approvals: FDI inflows (from January 2001 to December 2021)

- Computer Software & Hardware (24.60%)
- Services Sector (12.13%)
- Automobile Industry (11.89%)
- Trading 7.72%
- Construction (Infrastructure) Activities (5.52%)

FDI approvals (from August 1991 to December 2008):

- Fuels (power & oil refinery) (49%)
- Service Sector (financial and non-financial) (12.13%)
- Transportation industry (87%)
- Electrical Equipment (including computer software & electronics) (9%)
- Fermentation Industries (7%)

Technical collaborations:

- Since 1991, total technical collaborations are:
8035 Nos. of these, Tamilnadu has been granted 523 technical collaborations
- Share of Tamilnadu with a total is 6.51%

The top five sectors attracting technology transfer in Tamilnadu are:

- a. Electrical Equipment (including computer software & electronics) (133 nos)
- b. Industrial machinery (39 nos)
- c. Misc. Mechanical & Engineering Industry (38 nos)
- d. Transportation Industry (31 nos)
- e. Chemicals (other fertilizers) (29 nos)

Top inflows received from January 2000 to December 2008 into Tamilnadu through Indian companies are:

- ✓ Manipal University Learning P.ltd
- ✓ Shyamaraju & Company (India) P.ltd
- ✓ Metro Cash & Carry (I) P.ltd
- ✓ Chettinad Cements ltd
- ✓ Cisco Systems Capital (I) P.ltd
- ✓ Devas Multimedia P.ltd
- ✓ Givaudan (Indian) P.ltd
- ✓ Mantra Developers P.ltd
- ✓ BPL Mobile Cellular Ltd
- ✓ United Breweries Ltd

Cumulative FDI inflows of FDI during 1991-2008 (up to December) is Rs. 4,230.3

FDI inflows in respect of State specific are not maintained by RBI, Central Office, Tamilnadu. RBI maintains the FDI inflows data as per RBIs Regional Offices (RO) where the FDI inflow is reported to the Authorised Dealers of RBI. Many RBI Regional Offices cover more than one state. The RBIs Tamilnadu Regional Office (RO) covers the state of Tamilnadu. The amount of RBI inflows project specific in respect of all the Stats is centrally maintained by RBI for the period from January 2000 onwards only.

However, the FDI inflows reported to RBIs Tamilnadu Regional Offices (RO) is Rs. 238.9 (US \$ 5.5) billion which is 7.00% for the period from January 2000 to December 2008 based on the cumulative inflows received through SIA/FIPB route, acquisition of existing shares & RBIs automatic route.

SHARE OF TOP FIVE COUNTRIES ATTRACTING FDI INFLOWS AT RBI'S REGIONAL OFFICE (RO) OF TAMILNADU (INCLUDING STATE OF TAMILNADU) (from January 2000 to December 2008):

Ranks	Country	Amount of FDI inflows (In Rs.)	Amount of FDI inflows (In US \$)	% with FDI inflows for Tamilnadu
1.	Mauritius	145,924.73	1,045.56	52.24
2.	Singapore	32,221.47	772.22	13.06
3.	USA	29,218.15	456.45	6.21
4.	Netherlands	18,145.13	327.56	5.67
5.	Germany	15,415.19	230.36	4.06
	Total	2,40,924.7	2,832.15	81.24

Source: Secondary data

Note: (i) Amount includes the inflows received through the FIPB/SIA route, acquisition of existing shares & RBI's automatic route only

(ii) The amount of FDI inflows in respect of the country/sector/state-specific data is not provided by RBI, Mumbai before January 2000.

SHARE OF TOP FIVE SECTORS IN FDI INFLOWS REPORTED AT RBI'S REGIONAL OFFICE (RO) OF TAMILNADU (INCLUDING STATE OF TAMILNADU) (from January 2000 to December 2008):

Ranks	Country	Amount of FDI inflows (In Rs.)	Amount of FDI inflows (In US \$)	% with FDI inflows for Tamilnadu
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1.	Computer Software & Hardware			
2.	Services Sector	32,270.63	657.25	24.60
3.	Automobile Industry	36,806.06	569.42	12.13
	Trading	13,365.47	763.25	11.89
4.	Construction	12,096.13	639.42	7.72
5.	(Infrastructure) Activities	13,745.47	754.96	5.52
	Total	1,08,283.76	3,384.3	61.86

Source: *Secondary data*

Note: (i) Amount includes the inflows received through the FIPB/SIA route, acquisition of existing shares & RBI's automatic route only.

(ii) The amount of FDI inflows in respect of the country/sector/state data is not provided by RBI, Mumbai before January 2000.

CUMULATIVE FDI APPROVALS (From August 1991 to December 2008)

From August 1991 to December 2008, the Government (including RBI's automatic route) approved 28,152 foreign collaboration (technical & financial) proposals with a corresponding foreign direct investment (FDI) of Rs. 3,458.4 (US \$ 88.6) billion. Out of this, the total number of approvals for Tamilnadu have been of the order of 2,773 (9.85% off the total approvals) with equity participation of Rs. 253.9 (US \$ 6.2) billion 7.34% of the total investment. Tamilnadu ranks 6th in the list of States in terms of cumulative FDI approved from August 1991 to December 2008.

State	No. of approvals Total	No. of approvals Technical	No. of approvals Financial	Amount of FDI approved	% with a total for all states
Tamilnadu	3,576	475	3254	Rs. 3,13,902 .03 million (US\$ 5,759.59 million)	6.65%

SHARE OF TOP FIVE COUNTRIES IN FDI APPROVALS FOR TAMILNADU (From August 1991 to December 2008):

Rank	Country	No. of FDI approvals	Amt of FDI approved in Rs.	Amt of FDI approved in Rs.	% with total FDI for Tamilnadu
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1.	Singapore	167	27,126.20	1350.25	27.01
2.	USA	815	35,321.15	956.60	17.94
3.	Mauritius	200	21,506.32	478.26	15.98
4.	Netherland	53	16,876.74	329.46	7.86
5.	Switzerland	45	23,462.86	258.96	7.31
Total		1,280	1,24,293.27	3,373.53	76.1

Source: Secondary data

SHARE OF TOP FIVE SECTORS ATTRACTING FDI APPROVALS FOR TAMILNADU (From August 1991 to December 2008):

Ranks	Sector	No. of approvals	FDI in Rs.	FDI in US \$	% with FDI approval for Tamilnadu
1.	Fuels	74	72,654.12	987.89	49.23
2.	Service Sector	128	62,021.12	1435.7	12.13
3.	Transportation	112	15,963.40	57.27	87.21
4.	Industry Electrical Equipment	25	18,421.03	243.09	9.75
5	Fermentation Industries	12	23,451.34	753.43	5.02
Total		351	192,511.01	3477.38	155.34

Source: Secondary data

SHARE OF TOP FIVE SECTORS ATTRACTING TECHNOLOGY TRANSFER FOR TAMILNADU (From August 1991 to December 2008)

Ranks	Sector	No. of technical collaboration approved	% with technical cases for Tamilnadu
1.	Electrical Equipment	75	16.2 %
2.	Industrial Machinery	29	1.3 %
3.	Misc. Mechanical	32	8.3 %
4.	Engineering	24	20.8 %
5.	Transporting Industry Chemicals	18	9.1 %

Source: Secondary data

DETAILS OF TOP FDI INFLOWS RECEIVED FROM RBI'S REGIONAL OFFICE (RO) OF TAMILNADU

S.No	Indian Company	Foreign collaborator/ Country	Sector/item of Manufacture /Activity	Amount of FDI inflows Rs./US \$
1	Manipal Universities Learning P. Ltd	Memg International Ltd, Mauritius	Education	Rs. 8,190.8 US \$ 158.1
2	Shyamraju & Company (India) P. Ltd	TPG-AXON (Mauritius) Ltd, Mauritius.	Housing & Real Estate	Rs. 3,600.0 US \$ 301.1
3	Metro Cash & Carry (I) P.ltd	Metro Cash & Carry International GMBH, Germany	Trading (Wholesale Cash & Carry)	Rs. 2,871.6 US \$ 89.0
4	Chettinad Cement Ltd	Cementum I.B.V, Netherlands.	Cement and Gypsum products Financial	Rs. 3,031.0 US \$ 36.0
5	Cisco System Capital	CSI Mauritius Inc. Mauritius	Computer Software Industry	Rs. 3,591.0 US \$ 79.0
6	Devas Multimedia Pvt Ltd	Deutsche Telekom Asia P.Ltd	Chemicals	Rs. 2,172.5 US \$ 45.4
7	Givaudan (India) P.Ltd	Givaudan (India) P.ltd, Switzerland.	Housing & Real Estate	Rs. 2,176.6 US \$ 38.6
8	Mantri Developers P.Ltd	GSS LII Rose Investment Inc.	Telecommunications	Rs. 2,000 US \$ 66.7
9	BPL Mobile Cellular Ltd	Mauritius Mauritius	Fermentation Industries	Rs. 1,533.6 US \$ 55.1
10	United Breweries Ltd	Scottish & Newcastle India Ltd. UK	Housing & Real Estate	Rs. 1,329.0 US \$ 56.7

Source: *Secondary data*

CONCLUSION

In the above study, it is clearly understood that Tamilnadu is the best investing place for foreign investors. With the infrastructure, technical support, and sectoral contribution everything reveals the fact that Tamilnadu is the investor's hub. With the FDI in Tamilnadu, the GDP of the Tamilnadu economy is likely to grow up to 9.47% in the FY 2020-21, since Sholinganallur is also located in Tamilnadu (Indian first metropolis city) which is another interaction to the investors. But the drawback, which may affect the FDI inflow to the state, is instability in the political environment, which is one of the major points that may affect the minds of the investors. The FDI will also affect the environment of Tamilnadu, as the micro/our investors, may not be able to face the huge competition given by the investors from abroad. FDI will also result in a high cost of living and standard of living which is not adoptable for middle and lower-middle-class people. Finally, Tamilnadu is very rich in natural resources, human resources, and infrastructure so it is a great place for investors to get the proper return for the capital employed. On the other hand, the total population in Tamilnadu is around 76.8

Million and the unemployment ratio is around 1.78 %. (72,147,030, as per 2023 census) this problem can be majorly solved.

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