

# Comparative Analysis of FDI between India and UK

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**Abstract – Investment by a country into the infrastructure of another country is known as foreign direct investment. FDI has proved to be a life-line for developing countries like India, Sri Lanka, Brazil, China and some other countries. The economic relationship between India and the UK has been in existence for more than three hundred years old. The UK became the first country to invest in India. There is no doubt that investment was exploitative in nature. During pre-independence era, no other country interested to invest in India. After independence, the UK remained largest investor in India by 1964. After Brexit relationship between India and the UK will be strong. There are positives and negatives both for India. Negative is that the impact of Brexit will affect the Indian diaspora there as well. Brexit might also have a positive effect, but these results may not show up immediately. Thus, Britain's getting out of European Union has made it face reduced trade and a sustained drop in its GDP, the net effect for India may turn out to be positive. In present paper, we shall analyze the trends of FDI between India and UK and do comparative study between two countries.**

**Key Words-** FDI, Development, Brexit, Finance, Trade, GDP

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## INTRODUCTION

Investment by a country into the infrastructure of another country is known as foreign direct investment. FDI has proved to be a life-line for developing countries like India, Sri Lanka, Brazil, China and some other countries. The economic relationship between India and the UK has been in existence for more than three hundred years old. It was in 1991 that foreign investment began to come into the infrastructure setup of India under foreign exchange management act (FEMA) driven by the then government. India was found to be the second largest nation, China being the first, for transnational corporations in a survey conducted by UNCTAD during 2010-12. High foreign investment is attracted mainly to sectors like construction activities, telecommunication, computer software and hardware. Mauritius, Singapore, the UK, the US are among the leading sources of FDI into India. No doubt, the UK enjoys an important place from the Indian point of view. The UK is third largest source of FDI in India. Among foreign companies which have invested in India, Cairn UK Holding of the UK is the second highest investor. So the UK is playing a very important economic role in India.

We analyze the trends of the UK's FDI into India and what is the importance of Indian FDI in the UK. We shall analyze the under four categories.

1. FDI BETWEEN INDIA AND UK DURING 1600-1947
2. FDI BETWEEN INDIA AND UK DURING 1948-1991
3. FDI BETWEEN INDIA AND UK DURING 1992-2016
4. FDI BETWEEN INDIA AND UK AFTER BREXIT

### 1) FDI BETWEEN INDIA AND UK DURING 1600-1947:-

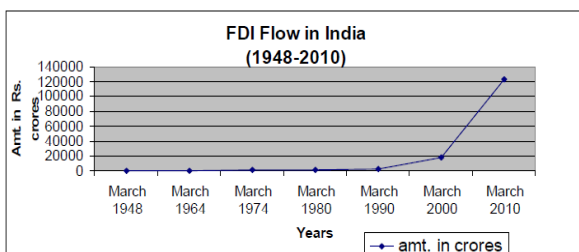
The FDI relationship between India and the UK is not a recent phenomenon rather this relationship is approximately three centuries old. British capital came to India in the early seventeenth century through their multinational corporation known as East India Company in the colonial era which was the first MNC in India. In the early eighteenth century when the Mughal Empire began to decline, India was the leading manufacturing country in the world having 22.6% share of the world's GDP. But, with the passage of time, the GDP of India fell to about 1% owing to exploitation of Indian resources by Britain.

The first phase of FDI in India was during the period 1900-1918 when there were no restrictions

on the nature of and type of FDI coming into India. During that period most of investment was exploitative in nature and was only concentrating in the sectors such as mining and extractive industries. No other country except Britain was interested in investing in India during this period. So the UK was the only source of Foreign Direct Investment into India.

## 2) FDI BETWEEN INDIA AND UK DURING 1947-1990:-

India got independence in 1947. One part of India became Pakistan. India faced riots and instabilities during this period. In this period, India faced two wars, the first in 1962 with China and the second in 1971 with Pakistan. These wars affected Indian economy and political environment which was necessary for inflows of FDI. India needed foreign technologies and foreign capital as well for development. According to the first survey of India's international assets and liabilities undertaken by RBI, the stock of foreign investment in the country stood at Rs. 2560 million, and it was mostly British. The bulk of FDI was concentrated in export oriented raw materials, extractive and service sectors. In 1948, tea plantation and jute accounted for a higher share of FDI as compared to manufacturing and services. Total FDI stock from 1974 to 1980 increased from Rs. 9169 million to Rs. 9332 million. The UK had the lion's share in this FDI stock. By 1980, the share of manufacturing in FDI stock had been increased. India received 64% of the total FDI of the UK in the manufacturing sector. So India remained the most favorite destination for the UK. But the share of the UK in the total FDI into INDIA continued to decrease. The distribution of FDI manifests considerable erosion of the dominance of the UK as the chief source of FDI. In 1964, the share of UK was nearly 77%, but by 1980, it had come down to 54%. The other countries like USA, Canada, and Germany emerged as a major source of FDI. But the importance of the UK never declined. The UK played an important role in Indian economy.



Source: Kumar 1995, various issues of SIA Publication.

## 3) FDI BETWEEN INDIA AND THE UK DURING 1991-2016

Year 1991 is a mile stone for Indian economy because India accepted the policies of liberalization,

globalization, lowering tariff etc. The economic reform undertaken by the government of India in 1991 made the country one of the prominent performers of the global economies by placing it at the ninth position in the world, at third in Asia and at fourth in terms of PPP, and at second in the world in terms of attractiveness of FDI (A.T. Kearney 2007). During this period, India became the third largest foreign investor in the UK and the UK is the largest in India within G20. The growth of Indian multinational companies contributed greatly to business and economy of the UK. Indian companies in the UK generated over 19 billion pounds in 2014. These companies gave employment to more than 100,000 people in the UK. So the importance of India in the economy of the UK has increased. The fact that India is important to the UK economy was demonstrated by the crisis caused by the decision of Tata Steel to withdraw from steel manufacturing in Britain. In 2014-2015 after the USA and France, India was the third largest source of FDI into the UK. India being one of the fastest growing economies in the world has been chosen as one of its most significant trade partners by Britain. Likewise, by creating 10% (371,000) jobs during 2000-2016, the UK still remains the largest job creator in India through FDI, says a report. The total number of people employed by British companies in India is currently 788,000 which come to 5.3% of the total jobs in private sector.

Between 2000 and 2016, the UK invested \$2407 billion in India, increasing its investment by \$ 1.87 billion between 2015 and 2016- representing 8% of all FDI into the country. With \$6.1 billion, the chemicals sector receives the major share of British investment in India (25% of UK FDI), followed by drugs and pharmaceuticals with \$4.1 billion (17%) and food processing with \$3.2 billion (14%). The main reasons for attracting UK companies are a growing market, easy talent availability, a stable political system, new business friendly policies, use of English as language of business, saturation of western market, growing economy etc. Indian Prime Minister Mr. Narendra Modi launched MAKE IN INDIA program on 25 September 2014 to attract more FDI into India. The effect of this program can be seen in the relationship between India and the UK. During the period from April 2015 to September 2016, India received \$1.87 billion as FDI from the UK. Roughly 38,000 jobs were created by the UK FDI in the period, (The Arunachal Times in)

	2010-11	2011-12	2012-13	2013-2104	2014-2015	2015-2016
FDI FROM UK INTO INDIA	12,235	36,428	5,797	20,426	8,769	5,938
TOTAL FDI INFLOWS IN INDIA	97,320	165,146	121,907	147,518	189,107	262,322
UK % IN TOTAL FDI IN INDIA	12.57	22.06	4.76	13.85	4.64	2.26

From above table, we can conclude that the UK's share of total FDI into India has been declining from 2011-2012. The reason may be global slowdown. There is no doubt, total FDI into India remains high. Make in India program has been working but in the case of the UK, it seems less effective.

#### **4) FDI BETWEEN INDIA AND UK AFTER BREXIT:-**

In a historic referendum on Thursday, 23 June 2017, the people of Britain voted for British exit from the EU. The result of that referendum came as the pound has fallen to its least level since 1985 and then Prime Minister David Cameron resigned. The new P.M. Theresa May plans to trigger article 50-the step that starts the timer on two year of Brexit talks- by the end of March 2017. Theresa May the Prime Minister has confirmed that Britain is quitting the EU to retrieve control over immigration as well as end the domination of EU laws. There had been troubled relationship between Britain and the EU since the beginning of EU and Britain has tried many times to exit EU. The main reason behind troubled relationship has been that Britain has to pay a big amount each week as contribution to European budget.

Britain has to pay millions of pounds each week as contribution to the European budget. Exporters of Britain have been being hurt by enormously bureaucratic nature of European parliament and migration from EU into Britain has been creating unrest and imbalance in various schemes for welfare by the government of UK. (The extremely bureaucratic nature of the European parliament has been hurting British exporters, and finally that unmitigated migration from EU into Britain in creating an imbalance in the welfare scheme of the UK government.) There may be following impact on Indian economy:-

#### **1) THE UNCERTAINTY FOLLOWING BREXIT:-**

The main drawback of brexit is that Britain has not made future plan if brexit happens. Britain does not seem to have any plan as to how her relationship with the EU or any other country within EU will be. So how the relationship between India and the UK will go cannot be predicted. It is expected that there will be instability in global financial market if brexit does happen. The pound will fall against many major economies like USA. How India can remain unaffected to this! Sensex and Nifty will fall down in a short period. FDI from the UK will go decrease.

#### **2) INVESTMENT:-**

India has the second place among the countries putting FDI into Great Britain. The historical and cultural relationship that India shared with Britain and the fact that the UK proved to be a gateway into the

other countries of Europe was one of the main reasons for this. Indian companies setting up their factories and offices in Britain can sell their goods and services to the other countries of Europe under the European free market system. However, if brexit happens, Britain will not remain so attractive a destination for Indian FDI as earlier. Britain would try her best that FDI should continue to pour in. It is expected that Britain would try hard to attract Indian companies to invest by giving them more incentives in terms of less regulation, less tax and other financial incentives. Further, if Britain comes out of the EU because of the latter's complicated bureaucratic regulatory structure, Indian companies may expect a less regulation and free market in UK.

#### **3) ANOTHER EU PARTNERS:-**

Britain's exit from the EU will cause India to lose its gateway to Europe forcing India to make ties with some other country in the EU, which will prove to be good in the long run. The Netherlands is India's foremost FDI destination at present. A Brexit will force India to seek new trading partners among the EU nations in order to gain access to big EU market.

#### **4) THE COMMONWEALTH COUNTRIES:-**

Britain will try hard to seek new trading partners and a source of capital and labor if Brexit does happen. There have been many supporters of the Leave Campaign that suggests that the UK should turn towards the Commonwealth to make new ties. Even after that Britain will need a continuous inflow of skilled labor, and for its purpose India is the best nation because it has a large speaking population. With migration from EU countries decreasing, Britain can well accommodate migration from other countries and that will suit the interests of India.

#### **5) RELATIONSHIP WITH THE EU:-**

After Britain's exit from the EU, Europe would like to forge strong trade and strategic partnership with India. This process would be accelerated after Brexit. The EU wants to make a counterbalance between USA and China geopolitically and would also need to protect its economic interests against the slowing China. So the EU would be seeking the fastest-growing economy in the world and would want to resolve the pending trade disputes with India in order to forge lasting ties.

#### **CONCLUSION:-**

The relationship between India and the UK is approximately three centuries old. The UK is the first country which invested in India. There is no doubt that investment was exploitative in nature. During pre-independence era, no other country interested to invest in India. After independence,

the UK remained largest investor in India by 1964. The share of the UK in the total FDI into INDIA continued to decrease. The distribution of FDI manifests considerable erosion of the dominance of the UK as the chief source of FDI. In 1964, the share of UK was nearly 77%, but by 1980, it had come down to 54%, and in 2015-16, it was only 2.26%. So there is no doubt, now the UK is not the big investor for India. But the UK remains the greatest job creator in India via FDI, creating 10% jobs between 2000 and 2016. After brexit relationship between India and the UK will be strong. British PM Theresa May visited India on 6<sup>th</sup> and 8<sup>th</sup> November 2016 for a bilateral trip. UK and India had negotiated to double the trade volume by 2015. The key topics would be May's plan for post Brexit relation with India. There are positive as well as negative effects for India. The Negative is that the impact of Brexit will affect the Indian diaspora there as well. The Majority of Indian companies in European Union are located in Britain or run office from there. They may face difficulty in working and on the other hand, in years to come we will perhaps be in a position to have a better equation with Britain. Brexit may have a positive effect, but these results may not be visible at once.

In this way it is evident that UK will suffer Union from Brexit in terms of decreased trade and a constant drop in its GDP but the final result may turn out to be positive for India.

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