Chapter 15
The Impact of Urbanization Induced Foreign Direct Investment in Emerging India

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ABSTRACT

Globalization accompanied with internationalization enhanced urbanization across the globe. Cities and towns became the central point for economic activities, most of them fueled by the inward flow of Foreign Direct Investment (FDI) especially in the emerging economies. Globalization initiated urbanization in most of the emerging economies. As an outcome of globalization directly and with urbanization indirectly it resulted in the growth of inward foreign direct investment across the globe. This chapter makes an attempt to identify the influence of urbanization upon inward FDI and economic growth for emerging India. To study this phenomenon, data for a period of twenty years were taken from 1990-2010. Multiple regression analysis was used. Results of the study are significant and indicate that, urbanization is playing an important role in enhancing the inflow of FDI into India in the study period. 66.9% of the changes in the dependent variable that is inward FDI is explained jointly by urbanization and economic growth, which shows that cities and towns are becoming an integral part in receiving FDI. This chapter also add some insight into the changing consumption and lifestyles of urbanites effected due to FDI.

INTRODUCTION

Foreign direct investment (FDI) is widely perceived as an important resource for expediting the development of developing countries. FDI is studied as a channel for international transfer of technology, a business organization serving more than one national sovereign master, a force influencing international financial flows recorded in a country’s Balance of Payment. It creates a net transfer of real capital from one country to another and represents entry into a national industry by a firm established in a foreign market (Caves, 1971). According to International Monetary Fund and OECD definitions, “FDI reflects the objective of establishing a lasting interest by a resident enterprise in one economy (direct invest-
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tor) in an enterprise (direct investment enterprise) that is resident in an economy other than that of the
direct investor. The lasting interest implies the existence of a long-term relationship between the direct
investor and the direct investment enterprise and a significant degree of influence on the management
of the enterprise. The direct or indirect ownership of 10% or more of the voting power of an enterprise
resident in one economy by an investor resident in another economy is evidence of such a relationship”.

When domestic base of created assets, like technology, skills, entrepreneurship becomes limited,
the attitude towards FDI becomes increasingly receptive (Kumar, 2005). Total FDI into India, since
April 2000, including equity inflows, reinvested earnings and other capital is US$ 408.68 billion (April
2000-December 2015). During the calendar year 2015, FDI equity inflows of US$ 39.33 billion have
been received, which represents an increase of 37% over the FDI equity inflows of US$ 28.78 billion
received during the corresponding period. FDI equity in financial year 2015-16 (up to December 2015)
surged by 40% to US $ 29.44 billion from US$ 21.04 billion in the year-ago period (FDI Inflows, 2016).
The distribution of inward FDI within India, is such that, economically advanced states have attracted
major share. The top six Indian states, namely Maharashtra, Delhi, Karnataka, Tamil Nadu, Gujarat and
Andhra Pradesh together accounted for over 70 per cent of FDI equity flows to India from April 2000 to
June 2012 reflecting distinct signs of FDI concentration at the state level. These regions are well equipped
with favourable infrastructure, skilled labour force, and conducive political climate for investment.

The FDI attractiveness survey 2012 undertaken by Ernst & Young states that the leading cities in
India such as Bangalore, New Delhi, Pune, Mumbai, and Chennai attracted 42 percent from the invest-
ment related projects that come to India from outside the country. They also generate 36 percent of the
jobs that are created in India from these projects and account for 28 percent of the aggregate worth of
such projects. In 2015, the state of Gujarat attracted US $12.36 billion investment, and the state accounts
for 10% of the total combined capital investments in India and China. The state of Gujarat received US
$12.36 billion in FDI with Shanghai Municipality of China being the second destination on the list
with US $10.57 billion, followed by Jiangsu, China at $9.53 billion. Indian states Maharashtra, Andhra
Pradesh and Karnataka received US $8.28 billion, US $6.1 billion, US$4.98 billion respectively, which
is followed by Guangdong China with US $4.49 billion.

The top five sectors which attracts highest FDI Inflows on a cumulative basis from April 2000 to June
2015 are: service sector (16.80%), construction development (9.34), computer software and hardware
(6.81), telecommunications (6.76), automobile industry (5.22). are electrical equipments, transportation
industries, telecommunication, fuels, food processing industries, cement and gypsum products, metal-
lurgical industries, chemicals, drugs and pharmaceuticals and services. Mauritius, Singapore, United
Kingdom, Japan and Netherland are the top five investing countries in India with a percentage inflows
of 34.74, 13.90, 8.65, 7.29 and 5.94 respectively.

Significant change occurred in urbanization in India after 1991, fueled mainly by factors like inward
FDI, liberalization, privatization and globalization (LPG), emergence of the software and services
outsourcing industry, restructuring of global capitalism, dominance of financial and service sectors.
Blomstrom et al (1992) indicate that, higher flow of FDI is received in areas where the existing condi-
tions are favorable accompanied by good absorptive capacity. Emerging cities and towns with good
physical, infrastructural and financial services act as hubs for service and manufacturing units. The
speed in which urbanization is spreading in Tier two and Tier three cities of India, is an encouraging
and welcoming aspect, in terms of attracting further FDI. As a result of these reforms, per capita income
and consumption patterns, industry structure, urban concentration, employment are changing. More
people start settling in urban areas. Urbanization is accompanied by increased consumption. Composi-