



The trends of FDI inflow in India: A study

Ajitesh Gupta

Faculty of Commerce, Kishor Kumar Verma Evening College, Vinoba Bhave University, Giridih, Jharkhand, India

Abstract

Foreign direct investment is an investment made by a foreign individual or company in productive capacity of another country. It is the movement of capital across national frontiers in a way that grants the investors control over the acquired asset.

The parent company starts their business either in the form of a partner, or to make an investment in a company in the host country. There are so many reasons behind the investment like cheaper labour in the country, special investment privileges such as tax exemptions offered by the country as an incentive to gain tariff-free access to the markets of the country or the region.

As the third – largest economy in the world in PPP terms, India is preferred destination for foreign direct investment (FDI). India's recently liberalized FDI policy permits up to 100% FDI stake in ventures. Industrial policy reforms have substantially reduced industrial licensing requirements, removed restrictions on expansion and facilitated easy access to foreign technology and FDI.

The future of Indian economy is brighter because of its huge human resources, rapidly upcoming service sector, availability of large number of competent professionals, vast markets for every product, increasing impact of consumerism, absence of controls and licenses, interest of foreign entrepreneurs in India and existence of four hundred million middle class people today. India provides highest returns on FDI then any other country in the world.

Keywords: FDI, economy, investment, GDP, growth, infrastructure, agriculture

Introduction

India was the strongest performing country with a 21% growth in FDI projects in 2011 following just 1 % growth in 2010. The impact of the natural disasters in Japan and Thailand is evident in the sharp decline in FDI in both countries. Hong Kong had a strong year, with its number of projects growing by 6 %, after a 21% drop in 2010.

The Indian economy is the third largest in the world as measured by Purchasing Power Parity, with a gross domestic product of US \$ 3.611 trillion. When measured in USD exchange-rate terms, it is the 10th largest in the world, with a GDP of US \$800.8 billion (2006). India is the second fastest growing major economy in the world, with a GDP growth rate of 8.9% at the end of the first quarter of 2006-2007. However, India's huge population results in a per capita income of \$3,300 at PPP and \$714 at normal.

Before 1991, when there was old Indian Economic policy, acceptance or inflow of FDI and any other investment was very difficult due to policies and political conditions of an Economy. However, in 1991, when Finance Minister Dr. Manmohan Singh introduced a new concept, a new economic policy in form of LPG. After implementation of LPG (Liberalization, Privatization and Globalization) it become easy to inflow of foreign direct investment.

Under the extant Foreign Direct Investment (FDI) policy, FDI up to 100% is allowed under the automatic route in most sector/activities, except a few, where sectoral equity/entry route restrictions have been retained. FDI, under the automatic route, does not require any approval and any involves intimation to the Reserve Bank of India within 30 days of inward remittances and issue of shares to non-residents.

It is thus predicated that the growing problems will receive mature response and policy will be articulated in such a way to use FDI the way China has used to enhance economic

growth while taking more investment to industrialize the rural sector of the Indian economy.

Review of Literature

Many published articles are available on foreign direct investment. A review of relevant literature has been done.

1. Bajpai and Dasgupta (2004) ^[3] in their study Multinational Companies and Foreign Direct Investment in China and India have inspected the FDI patterns over the years by the MNCs into these two developing nations and tried to find out the possibilities of attracting higher FDI inflow for India with the framing of suitable policies
2. Goswamia and Saikiab (2012) ^[4] in their study FDI and its relation with exports in India, status and prospect in north-east region have explored the trend of FDI in India and determined the association between FDI and exports during 1991 to 2011.
3. Patil and Kadam (2014) ^[5] in their research paper titled Effects of FDI on Indian economy: A Critical Appraisal have made an attempt to ascertain the relevance of FDI in our country by observing its inflow as well as its effect on its economic development over the years 2000-2010.
4. Azhar and Marimuthu (2012) ^[2] in their study An Overview of Foreign Direct Investment in India have focused on the need, sources and determinants of FDI, its year- wise and sector-wise examination and causes thereof.
5. Anita (2012) in Foreign Direct Investment and Economic Growth in India has explained the importance of FDI for developing and underdeveloped nation by stating that FDI plays a vital role in reducing the gap evident between present and needed funds and resources.

Need of the study

There have been reports for the past few years showing inconsistency in inflows of foreign direct investment in India. So, the need is felt to study the trends of FDI inflow in India, identification of country-wise inflows and ascertaining their sector-wise distribution in India.

Objectives of the Study

1. To study the trends of FDI inflow in India.
2. To identify the country-wise flow of FDI into India.
3. To ascertain the sector-wise distribution of FDI inflow in India.

Limitations of the Study

1. The present study is entirely based on Indian economy only.
2. The study is limited to only last nineteen financial years. So, the findings of this study reflect this period only.

Research Methodology

This study is based on secondary data. This database is constructed by pooling information and data from various reliable sources like National Statistical Office, Department of Industrial Policy and Promotion (DIPP), Reserve Bank of India, statisticstimes.com amongst many others. Online database of Indian economy, articles, journals, newspapers, etc. have also been referred.

To evaluate the trend of FDI inflows into India, CAGR (Compound Annual Growth Rate) and percentage have been used. To study the country-wise flow of FDI and its sector-wise distribution in India, simple calculation using Percentage has been done for easy understanding.

Foreign Direct Investment in India

In the terms of purchasing power parity (PPP) India stand third position. India has recently liberalized FDI policy permits up to 100% FDI stake in ventures. Industrial policy reforms have substantially reduced industrial licensing requirements, removed restrictions on expansion and substantially reduced industrial licensing requirements, removed restrictions on expansion and facilitated easy access to foreign technology and FDI. The upward moving growth curve of the real-estate sector owes some credit to a booming economy and liberalized FDI regime. A number of changes were approved on the FDI policy to remove the cap in most of the sectors. Restrictions will be relaxed in sectors as diverse as civil aviation, construction development, industrial parks, commodity exchanges, petroleum and natural gas, credit-information services, mining and so on. However, this still leaves an unfinished agenda of permitting greater foreign investment in politically sensitive area like insurance and retailing. Accounting to the government's Secretariat for Industrial Assistant, FDI inflows into India reached a record US\$ 19. bn in fiscal year 2006/07(April-March). This was more than double the total of US\$ 8bn in the previous fiscal year. Between April and September 2007, FDI inflows were US\$ 8.2bn.

There is no doubt about the fact that there has been a worldwide stir about foreign direct investment in India. India's growth rate of 8% certainly owes a lot to foreign equity capital and foreign direct investment. Here are the highlights of the latest trend figures concerned with FDI in India.

- Increase in total FDI :46.8%
- Rise in foreign equity :36%
- Reinvested foreign earnings and other capital: \$3.2 billion
- Total FDI earnings (inward)in Apr-Jan 2005-06: \$5.7 billion

Indian Government has a key role to play as far as investment laws are concerned. In this regard it is noteworthy to highlight some of the positive reforms that have brought a positive growth in this Indian economy in terms of GDP growth.

1. Govt has removed 10% voting limit in banks.
2. Higher ceiling in FDI in airport revamp ventures and real estate investment.
3. Revisit foreign shareholding norms in telecom is welcome change.
4. Removal of unwarranted restrictions on hindrances to foreign investment has exceptionally increased FDI in India.
5. Govt. of India has already allowed FDI up to 51% with prior government approval in the retail trade of "single brand" products.

Foreign Direct Investment – Concept and Policy

Foreign direct investment is an investment made by a foreign individual or company in productive capacity of another country. It is the movement of capital across national frontiers in a way that grants the investor control over the acquired asset.

Types of FDI

There are two types of FDI

- Greenfield Investment: It is the direct investment in new facilities or the expansion of existing facilities. It is the principal mode of investing in developing countries like India.
- Mergers and Acquisition: It occurs when a transfer of existing assets from local firms takes place.

Forbidden Territories

FDI is not permitted in the following industrial sectors

- Arms and Ammunition
- Atomic Energy
- Railway Transport
- Coal and Lignite
- Mining of IRON, Manganese, chrome, Gypsum, Sulphur, Gold, Diamonds, Copper, Zinc.

Investment in India

During June 2012, top 10 sectors attracting highest FDI inflows were Services Sector (19 per cent), construction Development: Townships, housing, built-up infrastructure (12%), Telecommunications (7%) Computer Software and Hardware (6%), Drugs and Pharmaceuticals (6%), Chemicals (other than Fertilizers) (5%), Power (4 %), Automobile Industry (4%, Metallurgical Industries (4 %), and Petroleum and natural gas (3%).

FDI up to 100% is allowed under the automatic route in most sectors/activities. FDI POLICY IN India is reckoned to be among the most liberal in emerging economies.FDI Policy permits FDI Up to 100% from foreign/NRI investor without prior approval in most of the sector including the services sector under automatic route. FDI in

sector/activities under automatic route does not require any prior approval either by the Government or the RBI.

Table 1: Financial Year-Wise FDI Inflows (Trends)

S. No	Financial Years	Total FDI Flow (in term of US\$)	Percentage growth over previous year (in terms of US\$)
1.	2000-01	4,029	-
2.	2001-02	6,130	(+)52%
3.	2002-03	5,035	(-)18%
4.	2003-04	4,322	(-)14%
5.	2004-05	6,051	(+)40%
6.	2005-06	8,961	(+)48%
7.	2006-07	22,826	(+)155%
8.	2007-08	34,843	(+)53%
9.	2008-09	41,873	(+)20%
10.	2009-10	37,745	(-)10%
11.	2010-11	34,847	(-)08%
12.	2011-12	46,556	(+)34%
13.	2012-13	34,298	(-)26%
14.	2013-14	36,046	(+)5%
15.	2014-2015	45,148	(+)25%
16.	2015-2016	55,559	(+)23%
17.	2016-2017	60,220	(+)8%
18.	2017-2018	60,974	(+)1%
19.	2018-2019	64,375	(+)6%
Total		609,838	-
		CAGR	(+)15.7

Source: RBI's Bulletin March, 2019 dt.11.05.2019

Table 2: Share of Top Investing Countries' FDI Equity Inflows (Financial Years)

Amount: Rupees in Crores (US\$ in Millions)

Rank	Country	Cumulative Inflows (Rs in Crores)
1.	Mauritius	738156
2.	Singapore	505946
3.	Japan	173332
4.	Netherlands	162251
5.	U. K	140370
6.	U.S. A	146372
7.	Germany	65477
8.	Cyprus	51544
9.	UAE	39310
10.	France	36825
Total FDI Inflows from AB		2,378,886

Source: dipp.nic.in

Table 3: Sectors Attracting Highest FDI Equity Inflow

Amount: Rupees in Crores

Rank	Sector	Cumulative Inflows
1.	Service sector	416,301
2.	Computer Hardware and software	221,756
3.	Telecommunication	188249
4.	Construction Development	119614
5.	Trading	143599
6.	Automobile Industry	123989
7.	Chemicals	91062
8.	Drugs and Pharmaceuticals	84,165
9.	Construction	93,873
10.	Power	77889
Total FDI Inflows from All Countries		2,378,886

Source: dipp.nic.in

From the above table no 2, it can be observed that among the top ten countries investing in India over the last 19 years, Mauritius and Singapore stands first and second respectively, contributing around 52 percent of the total FDI inflow during this period.

Among the top ten sectors attracting the most FDI inflows, it is observed that the service sector of our country received the maximum investments constituting almost 18 percent of the total investments from these countries over the last 19 years, followed by Computer Hardware and Software and Telecommunication sectors with 9 percent and 8 percent respectively. It is because of the fact that among all the sectors the service sector has been the fastest growing sector of Indian economy over a longer period of time. The contribution of various components of this service sector like trade, financing, hotels, insurance, transport and communication, real estate and business services, social and personal services exceed 60 percent of India's GDP.

The FDI boom in India

- India is now the third most favored destination for Foreign Direct Investment (FDI), behind China and the USA, according to an AT Kearney survey that tracked investor confidence among global executives to decide their order of preferences.
- India's share of global FDI flows rose from 1.8 percent in 1996 to 2.2 percent in 1997.
- FDI in India in 1997-98 was lower at US \$ 5,025 million compared to US \$ 6,008 million in 1996-97 because of a decline in portfolio investment. Although foreign direct investment (FDI) increased by 18.6 percent from US\$ 2,696 million in 1996-97 to US\$ 3,197 million in 1997-98.
- International developments continue to attract flow capital flows into in 1998-99 as well.
- Mauritius, as in the previous two years, was the dominant source of FDI inflows in 1997-98. USA and S. Korea were, respectively, the second and third largest sources of FDI.
- S. Korea increased its flow of investment in India from a merger US \$ 6.3 MILLION IN 1996-97 (0.2 percent of total FDI) to US \$333.1 million in 1997-98 (10.4 percent share).
- There has been a sharp rise in the number of FDIs approved in 2004.
- During the first seven months of 2004, between January 7 and July, Rs.5, 224 crore worth of FDI was approved.
- Almost a third share of the investment in India is by NRI.
- According to the latest Reserve Bank of India figures, outflows through various NRI deposits schemes amounted to \$ 903 million since May 2004, as against net inflows of \$ 1.2 billion in the corresponding period last year.

Findings

There has been varying trends of FDI inflows in India observed in the recent years which is in line with the world economy. On analyzing the same, it is generally on a rising side (particularly after 2012-13), also indicated by a positive CAGR of FDI inflows of 15.7 %.

There has been a remarkable growth in FDI inflows during 2013 to 2016 after a sharp fall in 2012-13. As a result, India managed to attract good amount of FDI during this period.

However, India's FDI equity inflows have declined over the last few years and have even hit the lowest level in 2018-19 with a steep fall in foreign investments in telecom, power and pharmaceuticals sectors.

Mauritius and Singapore were found to be the top two countries investing directly in India constituting around 52 percent of the total FDI inflows among the top ten countries investing in India over the last 19 years.

Among the top ten sectors attracting the most FDI inflow, the service sector stands first with 18 percent of the total inflows over the last 19 years followed by Computer Hardware and Software and Telecommunication sectors with 9 percent and 8 percent respectively.

Conclusion

Trends are just relative number which might differ from the original numbers. It only shows the relation in the form of percentage growth over last year whereas the foreign direct investment keeps on coming into the economy. There can be many factors responsible for such variations in the trends of foreign direct investment inflow like economic, institutional and political factors. These factors include economic growth of the country, market size, resources location, and return on investment, inflation, government regulation, political stability, tax policies and foreign exchange rate among others.

Recommendations

According to previous studies by other researchers, India has been able to attract huge amount of FDI only in the post-reforms period that is since 1991. However, it cannot be denied that it is still lagging behind many other developing nations based on the quantum of FDI inflow in respect of its size. Hence, it is recommended to shift the focus more to the long-term development of the country rather than its short-term growth. In the context of FDI, the government is suggested to further liberalize the foreign direct investment policies and make India more investment – friendly. It cannot keep relying upon a handful number of nations rather it should look for multiple opportunities. At the same time, it can look for possible sector where foreign investors can enter through automatic route and formulate policies favourable for investments in other sectors alongside service sector.

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