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Trend and Pattern of Foreign Direct Investment Inflows in India

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Abstract

Foreign direct investment is an investment made directly into production, manufacturing or business of a country by an individual or company of another country, either by purchasing a company in the foreign country or by expanding operations of an existing business in that target country. A crucial role played by the FDI is by channelizing the transfer of capital and technology and can be perceived to be a potent factor in promoting economic growth in developing countries especially, a country like India. The purpose of this study is to analyze the trend of FDI equity inflows, different sectors attracting highest FDI equity inflows and the share of top investing countries in FDI equity inflows in India, taking into considerations the secondary data from April 2000 to March 2019. The results show that the maximum FDI inflow is in service sector and India has received maximum FDI inflow from Mauritius. The present study has also highlighted the major policy implications in interpreting FDI in India.

Keywords: *FDI Inflows, Economic Growth, Service Sector*

JEL Classification: *E2, F21*

Introduction

Foreign Direct Investment plays a significant role towards the growth and development of an economy, particularly in case of developing economies, where domestic savings is not sufficient to meet the needs of generating funds for capital investment. It provides a sound basis for economic growth and development by enhancing the financial position of the country, it's contribution to the GDP and also to foreign exchange reserves of the country (Vasanthi & Aarthi, 2013). Through the flow of fund between the countries in the form of inflow or outflow, one country can reap some benefit from their investment whereas the other can exploit the opportunity to enhance the productivity. Further, flow of foreign capital can make a country to find a better position through performance, also supplements the investment requirements of an economy, brings new technology, managerial expertise and adds to foreign exchanges reserves. After two decades of economic reforms and the challenges faced to compete globally to attract as a favourable destination for foreign investors after considering the market potentiality, the quality of FDI matters at least as much as the volume of FDI for the growth implications in host economies (Gori, 2015).

The potential advantages of the FDI on the host economy are that it could facilitate the optimal use and the exploitation of local raw materials and products introducing new

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and modern techniques of management, easing the access to new technologies, creating opportunities for employment. For emerging economies like India FDI can now be referred as the most effective way for transferring capital and technology from other economies especially, from the developed ones. There should not be any distinction between FDI and trade dimension though are being increasing with organized rate of global value chains. Now, the need arises to remove those administrative complexities to achieve synergy among various government machineries (Pant & Srivastava 2018).

According to Indian Banker World Investment Report, FDI inflows to the developing economies will be at highest level in coming years, where South Asian countries will be remain at the top list. The inflow of funds over the years, helped the country to make advancement in the field of technology, up gradation of basic skills, leading to employment generation, better and developed infrastructure, management of foreign corporations have helped the country to transform the economic structure, shape and in order to pursue additional investors, attracting investments in most innovative sectors. The proactive policy formulated by the union government with effect from 2014 facilitated high amount of foreign inflows in different sectors. Consequently, the country has gained in respect of higher productivity, sustainable and inclusive development, advancement in the field of technology, up gradation of basic skills, leading to employment generation, better and developed infrastructure (Sharma & Khurana, 2013). Having this backdrop, the present study aims to analyse the trend and pattern of FDI inflows in India during the post liberalisation period.

Review of Literature

Hooda (2011) studied the trends and patterns of flow of FDI, determinants of FDI and the impact of FDI on the Indian economy using time series data for the period 1991 to 2008. The study found that India continued to attract substantial amount of FDI inflows due to its flexible investment regimes and policies despite troubles in the world economy.

Sahni (2012) studied trends and determinants of the FDI inflow into India for the post liberalisation period from 1992-93 to 2008-09. GDP, inflation and trade openness were found to be important factors in attracting FDI inflows in India during post reform period whereas Foreign Exchange Reserves was not an important factor in explaining FDI inflows in India.

Singh, Chadha, & Sharma (2012) found that foreign investment flows are supplementing the scare domestic investments in developing countries particularly in India. However, foreign investor never adopts environment friendly technique to maximize their profit. Main reason of this sifting is high risk and low profit in concern sectors.

Malhotra (2014) found that Indian economy has a tremendous potential and FDI has a positive impact. Further, FDI inflow supplements domestic capital along with technological development and efficiency. Thomas (2016) also concluded that FDI has a positive impact on country's economy. Amount of FDI inflows have supplemented domestic capital, as well as transfer of new technology and skills of existing companies in the country. Zafar & Hemdat (2015) found that FDI flow in India has increased in comparison to past. Further, FDI inflow has influenced the GDP of the nation, both move with matching pace and positive impact on economy. Koner, Roy, & Purandare (2018) examined the impact of FDI inflow on GDP and observed the existence of positive relationship.

George & Rupashree (2019) attempted to forecast the FDI inflow in India for the period of five years ranging from 2019-2023. The study used three forecasting models, namely, naive model, exponential model and ARIMA model. The result shows that FDI inflow during the next five years does not show an increasing trend when compared to previous years. Thus, the study suggested that government should take care in framing policies and procedures that would enable the investors to invest in the economy and further to boost economic growth. Jana, Sahu, & Pandey (2019) argued that without sufficient development of agriculture and manufacturing sector, the sustainability of service-led growth is highly questionable and recommended that the policymakers to rethink on improving spillover effect of manufacturing FDI within the sector to ensure sustainable growth of the sector. John (2019) suggested that to attract more FDI, better facilities needs to be created and improvement in infrastructure to raise productivity.

Objective of the Study

The objective of the present study is to analyse the trend and pattern of FDI inflows in India during the period from 2000-01 to 2018-19.

Methodology of the Study

The present study is based on the information and data collected from the secondary sources. To analyze the performance and pattern of FDI inflows, data have been collected from different sources such as Ministry of Commerce database, annual reports and press notes of Government of India. In the present study, data from April 2000 to March 2019 have been considered. Collected data have been analysed with the help of both YOY growth rate and Compound Annual Growth Rate. Further, the study has used line chart for the lucid presentation of trend of FDI inflows in India.

Data Analysis

Table 1 presents year wise FDI equity inflows. From the table, it is found that during the period under consideration, there are huge fluctuations and variations in the pattern of investments of foreign capital due to flows and withdrawals. The gross FDI received from April 2000 to March 2019 is Rs. 23,78,887 Crore. The FDI inflows increased from Rs. 10,733 Crore in 2000-01 to Rs. 309,867 in 2018-19 at the compound annual growth rate of 20.54 percent. The year 2001-02 shows a growth at the rate of 73 percent in the FDI inflows because of high demand of Indian consumers, liberalized government policy and good communication facilities. From the year 2004-05 to 2008-09, the growth rate of FDI inflows has shown increment with a highest spike in the year 2006-07 i.e. of 129.38 percent, a tremendous flow of foreign capital. But, from the year, 2009, the value of FDI has started declining due to the decrease in the money value of rupees. Figure 1 portrays these fluctuations in FDI inflows clearly.

Table 1: Year wise FDI equity inflows

Year	**Amount of equity inflows** *(in Rupees Crore)*	**YOY Growth** *(%)*
2000-01	10,733	--
2001-02	18,654	73.80
2002-03	12,871	-31.00
2003-04	10,064	-21.81
2004-05	14,653	45.60
2005-06	24,584	67.77
2006-07	56,390	129.38
2007-08	98,642	74.93
2008-09	142,829	44.80
2009-10	123,120	-13.80
2010-11	97,320	-20.96
2011-12	165,146	69.69
2012-13	121,907	-26.18
2013-14	147,518	21.01
2014-15	181,682	23.16
2015-16	262,322	44.39
2016-17	291,696	11.20
2017-18	288,889	-0.96
2018-19	309,867	7.26
Total FDI Inflows from all countries	23,78,887	
CAGR (%)	20.54	

Source: Ministry of Commerce, Govt. of India

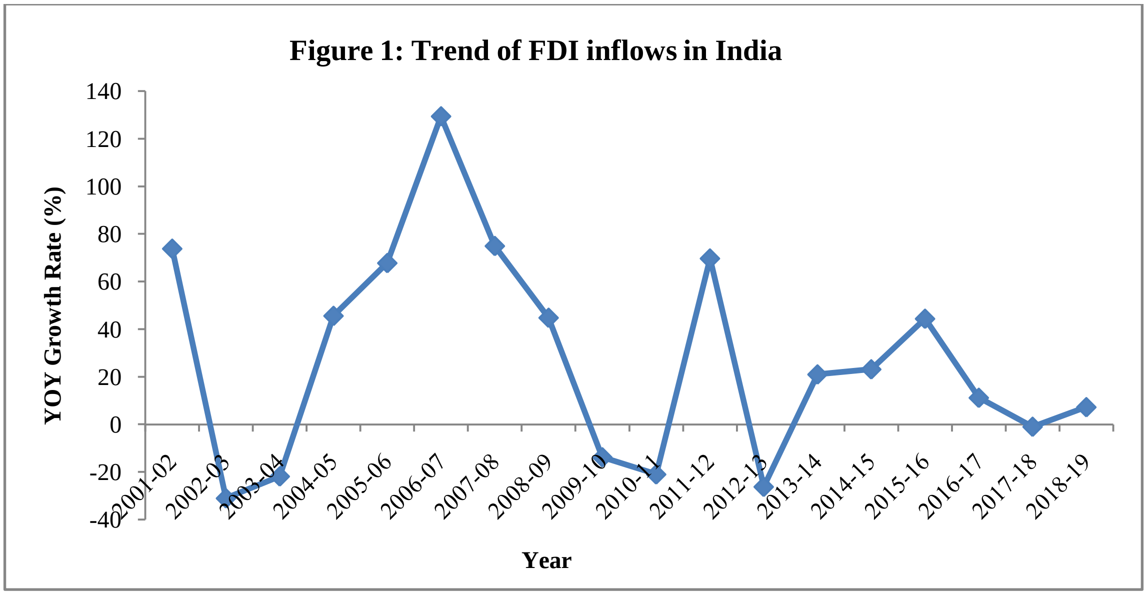

Table 2 presents the FDI equity inflows from top ten countries. India received maximum inflow of foreign capital from Mauritius followed by Singapore, Japan, Netherlands and U.K. India received the highest inflow from Mauritius because of entering into a Double Taxations Avoidance Agreement. In terms of percentage of total FDI inflows, maximum inflows made at the rate of 31.03 percent and 21.27 percent of total FDI inflows respectively at a higher trend. On the other hand, the percentage has been observed to be single digit in case of rest of the countries ranging from 1.38 percent from France to 7.29 percent from Japan.

Table 2: Highest FDI inflows from top 10 investing Countries
(April, 2000- March, 2019)

Sl No.	Countries	Cumulative inflows *(in Rupees Crore)*	Parentage of Total FDI inflows
1	Mauritius	738,156.04	31.03
2	Singapore	505,946.38	21.27
3	Japan	173,331.56	7.29
4	Netherlands	162,251.09	6.82
5	U.S.A.	146,372.00	6.15
6	United Kingdom	140,369.58	5.90
7	Germany	65,477.24	2.75
8	Cyprus	51,544.25	2.17
9	U.A.E.	39,309.59	1.65
10	France	32,824.60	1.38

Source: DPIIT, Govt. of India

Table 3 presents sector wise FDI inflows in India. From the table, it is observed that the sector receiving highest inflow of FDI is the service sector, comprising of banking, insurance, financial/non-financial etc. The service sector received the highest amount with a cumulative inflow of Rs. 416,301.00 Crore that constitute of 17.50 percent of total FDI inflows in India. This inflow to service sector will enable the economic performance on the domestic domain as well as to the external fronts. The share of computer and of telecommunications is at 9.32 percent and 7.91 percent respectively. Trading sector's share in total FDI inflows is accounted to 6.04 percent followed by Automobile, Construction, Infrastructure, Chemicals, Pharmaceuticals and Power. There exist a gradual shift in the movement of FDI inflow where sector specific policy play an important role in FDI inflow but a strong manufacturing sector is of outmost vital for the sustainable growth of service sector. This kind of growth, which is propelled by the global economic environment, is vulnerable to global economic phenomena and is not conducive to a developing country like India (Sutradhar, 2016). During the recent global crisis, FDI inflows showed an increasing trend and it is also expected to grow in coming years. The FDI inflow to service sector is the most with a positive economic impact and thus allowing multi brand retailing (Teli, 2014).

Table 3: Sectors attracting highest FDI inflows
(April, 2000- March, 2019)

Sl No.	**Sectors**	**Cumulative inflows** *(in Rupees Crore)*	**Parentage of Total FDI inflows**
1	Services	416,301.22	17.50
2	Computer	221,756.00	9.32
3	Telecom	188,248.86	7.91
4	Trading	143,598.82	6.04
5	Automobile	123,988.58	5.21
6	Construction	119,613.96	5.03
7	Infrastructure	93,872.77	3.95
8	Chemicals	91,062.19	3.83
9	Pharmaceuticals	87,167.50	3.66
10	Power	77,889.36	3.27

Source: DPIIT, Govt. of India

New FDI Policy

Recently, India joined the list of those countries that have placed high restrictions on foreign investment due to ongoing Covid-19 crisis to fend off predatory investment. The new FDI policy announced by the Ministry of Finance on April 2020 requires that all investment from the investors of Afghanistan, Bangladesh, Bhutan, Myanmar, Pakistan, Nepal and China sharing a land border with India would henceforth require to invest through government approval route irrespective of the sector (DPIIT Press note 3, 2020).

Further, in the event of a transfer of ownership of any existing or future FDI in an entity in India, directly or indirectly, resulting in the beneficial ownership falling within the restriction/ purview of the bordering countries, such subsequent change in beneficial ownership will also require a government approval. The restriction takes out all potential funding from new investors as well as supplementary funding from a beneficial owner from India's land border-sharing countries from the automatic route. The move does not aim in the restriction of the foreign investment from the land bordering countries but only intends to regulate the future foreign investments or transfer of existing investments to beneficial owners located in bordering countries in India. In the present form, since a 'perceived' restriction of government approval has been imposed on any form of investment by a land bordering nation's entity, the possibility of some delay in the ongoing transactions cannot be ruled out. However, such a policy action has been used for the sole purpose of avoiding opportunistic takeovers of Indian companies with a limited coverage to the land-bordering countries around India. In the present circumstances of a raging Covid-19 pandemic rendering many Indian entities vulnerable, the Government's move is directly in line with public welfare and national security interests (Damodaran & Chakravarty, 2020). The amendment of the FDI policy follows the footsteps of many other countries trying to prevent China's predatory measure of purchasing of low valuation assets during the Covid-19 crisis. Relevant to this, the European Commission pointed out that the current economic shock would increase the potential risk to strategically important industries. The takeover of weakened strategic assets through FDI is a widespread fear (Singh & Tembey, 2020).

Conclusion

Considering the current scenario of global environment, it is not possible for a country to have fast pace of economic development. In the year 2014, when a new FDI policy introduced, the inflows witnessed a positive pattern of foreign investment, due to the adoption of more liberal foreign policy and quantum of measures taken by the Union Government. The share of FDI increased from the year 2013-14 showing a positive effect on the country's economy. Service sector receives the highest amount of FDI followed by computers, telecommunication and other manufacturing related industries. FDI is necessary for new job creation, expansion of existing manufacturing industries and development of the new one. Indeed, it is also need for in the healthcare, education, R&D, infrastructure, retailing and in long- term financial projects (Bajpai, 2016). It is important to note that, in line with global situation, the Press Note regarding the introduction of a new FDI policy, 2020 is intended to increase regulatory oversight on investments from bordering countries. However, it would be optimal for the government to clarify those matters time to time with the adoption of any changes with respect with the Indian foreign exchange regulations. The result of sector level output export productivity is trifling due to stumpy flow of FDI. India would do better by concentrating on the government and public policies by opening up the export oriented sectors and improving human resources for constructing a steadfast macroeconomic framework and situations which would be favorable for systematic and productive investments to amplify the process of economic growth and development (Sultana, Kagdiyal, Goyal, Chakkala, & Sai, 2019). India would be the most attractive market for global partner. Thus, the Union Government aims to achieve US$ 100 billion worth of FDI inflow in coming two years (IBEF, 2020).

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