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RECENT TRENDS OF FOREIGN DIRECT INVESTMENT INFLOWS IN INDIA: AN ANALYTICAL REVIEW (2000-2019)

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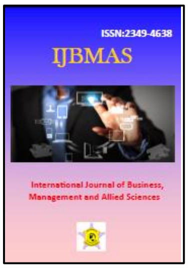

ABSTRACT

Foreign Direct Investment plays a very vital role in the development of the nation. Domestic capital is inadequate for the purpose of overall development of the country. Foreign capital is the way by which we can fill the gaps between saving and investment of domestic economy. In present scenario, Indian Economy is one of the most emerging economies of the world today. In the last two decades world has been extensive inflow of FDI into developing countries. Many developing countries are in competition with each other to attract FDI. Since 2014, India has emerged as of the top foreign destination in the world with a significant rise in FDI. Foreign Investment in India started back in 1991 after implementation of New Economic Policy. During 2000s, there is a big rise in Foreign Direct Investment in India. This paper focuses on secondary data based Sectoral Analysis of the inflow of FDI in India during 2000 to 2019. This paper also focuses on FDI policy framework, country-wise, equity wise FDI inflow in India.

Keywords: Foreign Direct Investment, India, Equity Inflows, Sectors, Development.

INTRODUCTION

FDI is an investment made by one company into another company or entity based in other country. The investing company may make its investment in FDI in many ways - either by setting up a subsidiary or associate company in the foreign country, or by acquiring shares of an overseas company, or through a merger or joint venture. Increase in FDI may be associated with improved economic growth because of the input of capital and increase in tax revenues for the host country. Host countries may often try to channelize FDI investment into new infrastructure and other projects to boost development. Great competition from other new companies may lead to productivity gains and greater efficiency in the host country and it has been suggested that the application of a foreign entity's policies to a domestic subsidiary can improve the corporate governance standards. Foreign investment may result in the transfer of soft skills through training and job creation, the availability of more advanced technology for the domestic market and access to new research and development resources. The local people may be able to benefit from the employment opportunities created by new businesses.

Foreign Direct Investment is defined as the flow of capital from one foreign country to a host country to control the assets, establish new production or service facilities and to conduct the new business activities. FDI is one of the measures of growing economic globalization. Investment has been always a major issue for the developing economies like India. The world has been globalizing and all countries of the world are liberalizing their policies for welcoming investment from other foreign countries which are abundant in capital resources. Developed countries are focusing on new markets where there is availability of abundant labours, scope for their products, and higher profits are achieved. So Foreign Direct Investment (FDI) has become a battle ground in the emerging markets.

There are two types of Foreign Direct Investment (FDI). First one is Inward Foreign Direct Investment (IFDI) which simply means such foreign investors who invests in the local goods of the economy and the other one is Outward Foreign Direct Investment (OFDI) which means when an investor from the economy expands the operation of their firm into another foreign country. On one hand, IFDI injects money in the economy from external sources whereas OFDI launches its goods globally through mergers and acquisition.

LITERATURE REVIEW

In the present era of globalisation, various governments have been responding in a positive manner. Many changes have been introduced in their investment policies to make them acceptable according to the country environment. This has attracted a number of researchers across the globe to have a deeper look at the investment policies especially FDI in both developed and developing countries.

Different researchers like Alfaro (2003), Carkovic & Levine (2002), Lyroudi et al. (2004), Johnson (2006), Sapienza (2009) have been able to establish a positive relationship between Foreign Direct Investment and Economic growth and development for the developing economies.

Herzer (2010) paper titled **"How does foreign direct investment really affect developing countries growth?"** suggests positive effects of outward FDI on 50 countries. The study uses cross section growth regression approach and system co integration method to show a positive relationship between FDI and economic growth. The long run causality shows that due to increases in GDP and the associated rise in productivity levels of firms helps them to make investments abroad thus having positive and significant ripple effects.

Cherian, Iyare Sunday O, Bhaumik Pradip K, Banik Arindam (2004) in their work "Explaining FDI Inflows to India, China and the Caribbean: An Extended Neighbourhood Approach" found out that the FDI flows are generally believed to be influenced by economic indicators like market size, export intensity, institutions, etc, irrespective of the source and destination countries.

John Andreas (2004) in his work "The Effects of FDI Inflows on Host Country Economic Growth" discussed the potential of FDI inflows to affect the economic growth of the host country.

Agarwal G., Khan M. A. (2011), "Impact of FDI on GDP: A Comparative Study of China and India" observed that 1% increase in FDI would result in 0.07% increase in GDP of China and 0.02% increase in GDP of India.

Saini A., Law S. H., Ahmad A. H. (2010), "FDI and economic growth: New evidence on the role of financial markets" observed that the positive impact of FDI on growth "kicks in" only after financial market development exceeds a threshold level. Until then, the benefit of FDI is non-existent.

Chee Y. L., Nair M. (2010), "The Impact of FDI and Financial Sector Development on Economic Growth: Empirical Evidence from Asia and Oceania" observed that financial sector development enhances the contribution of FDI on economic growth in the region.

Foster (2011) examines the FDI scenario in emerging nations like India, U.K, brazil along with China. The author observed that China is one of the top nations in the world to receive FDI. Surprisingly the FDI is unevenly distributed in the country. The richer regions like those in east China have been able to attract high FDI as compared to western region. The author also highlights various regulatory problems in the country leading to execution of FDI projects.

Ramaswamy et al. (2017) analyse the regional productivity across 28 Indian states from 1993 – 2013 w.r.t to FDI spill over. Using a panel data, they observed that factors like research and development, technology import, human capital, and various specifications of FDI have a substantial effect on the regional productivity in India except technology gap.

Khachoo & Sharma (2017) observe closely the behaviour of Indian and foreign Manufacturing firms for the research and development (R&D) when the FDI in. The authors stress that FDI inflows the competition level in the country thereby raising the R&D requirements by both domestic and foreign firms. The study uses Heckman's two-step estimation strategy to analyze this impact from 2000 to 2012.

OBJECTIVES OF THE STUDY

The study is based on the following objectives:-

1. To discuss the FDI policy framework in India.
2. To study the trends of FDI flow in India during 2000 to 2019.
3. To analysis the FDI flow as to country-wise approvals of FDI in India.
4. To analyze sector wise inflow of FDI in India.
5. To analyze FDI equity wise inflow in India.

RESEARCH METHODOLOGY

The study is based on published sources of data collected from various sources. The data were gathered from the secondary sources such as journals, articles published online and offline on various newspapers and websites. The statistical data were collected from DIPP's FDI data base (Department of Industrial Policy and Promotion).

SCOPE OF THE STUDY

The scope of the study is restricted to the study of FDI in India from 2000-01 to 2018-19. It is also restricted to Sector-wise FDI, Country-Wise FDI and Equity-Wise FDI.

FDI POLICY FRAMEWORK IN INDIA

Policy is one of the main factors driving investment flows to a country. The ability of a nation to attract foreign investment depends upon the policy regime of that country-whether it promotes or restrains the foreign investment flows.

This section undertakes a review of India's FDI policy framework. There has been a vast change in India's approach to attract foreign investment from the early 1990s when it began structural economic reforms about almost all the sectors of the economy.

Pre-liberalisation Period:

At the time of independence, FDI inflow was a fear and distrust among the Indians due to the past colonialism by the British government. The government policy towards FDI before the economic reform can be classified in different phases as:-

- The phase of cautions and selective attitude towards FDI (1948-1967).
- The phase of restrictive attitude towards FDI (1968-1979).

• The phase of semi-liberalisation (1980-90).

Just after India got the independence, the FDI policy was so cautious that the inflow was very low.

FDI inflow throughout the pre-reform period experienced several ups and downs. The percentage remained negative between the period 1975-76 and 1978-79. After that it gradually moved upwards at an increasing rate. In the first phase of the semi-liberalization period it got reduced steeply, again increased in the first three years of the 2nd phase. However, the last three years experienced steep ups and downs in FDI inflows.

Post-liberalisation Period:

Liberalisation, Privatization and Globalization policy brought a major change in the economic conditions of our country. A lot of measures directed towards liberalizing foreign investments were introduced:-

- Introduction of dual route of approval of FDI – RBI's automatic route and Government's approval (SIA/FIPB) route.
- Automatic permission for technology agreements in high priority industries and removal of restrictions of FDI in low technology areas as well as liberalisation of technology imports.
- Permission to Non-Resident Indians (NRIs) and Overseas Corporate Bodies (OCBs) to invest up to 100 per cent in high priorities sectors.
- Hike in the foreign equity participation limits to 51 per cent for existing companies and liberalisation of the use of foreign brand names.
- Signing the Convention of Multilateral Investment Guarantee Agency (MIGA) for protection of foreign investments.

As the result of these efforts Foreign Exchange Management Act (FEMA), 1999 introduced that replaced the Foreign Exchange Regulation Act (FERA), 1973 which was less stringent.

Evaluation of FDI inflows in India

Liberalisation, Privatisation and Globalization policy introduced in 1991 has changed and improved the Investment pattern in India and open the doors for the economy and after that more progress was achieved after 2014. Liberalisation in FDI norms played a vital role in raising the different sectors of the economy.

India received the record FDI of $ 60.9 billion in 2017-18. Under the present framework of FDI there are two major routes for entry in the country by Multinational companies: - the first one is government route and the second one is automatic route. Under the government route there is a requirement of prior permission for investment and need to be approved by the respective administrative Ministry or department. Under the Automatic route, the investors have required no approvals from the Government of India for investment. Under both the routes whether government or automatic route, FDI may be permitted up to 100 percent.

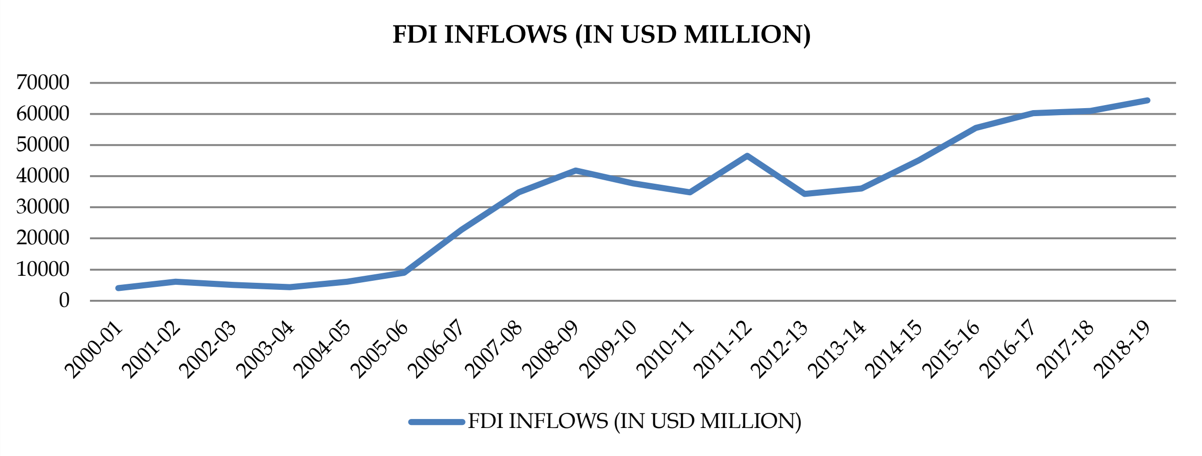

Figure 1: *Financial Years from 2000-01 to 2018-19 FDI in flows in India (upto May 2019)*

Sources: RBI and DIPP bulletins

Table 1 shows the FDI inflows in the country from 2001 to 2019. From 2000, major changes have been made in FDI policies by the government of India ensuring that Indian conditions becomes an increasingly attractive and investor friendly destination. FDI flows in India arise tremendously post the 1991 reforms and were marvellous growth with 52 percent increase in 2001-02. From 2001-02 to 2000-04, FDI inflows did not see much growth and were inconsistent declining to 18 percent and 14 per cent in 2002-03 and 2003-04. From 2004-05 to 2005-06 there is a consistent growth of 40 and 48 percent respectively which shows that there is a marvellous growth in FDI. During 2006-07, there is a highest growth of FDI i.e. 155 percent which was tremendous growth in FDI during the last few years. In 2006, an inclusive review was done for the FDI policies adopting a more rationalized approach. In this review, procedures become very simple, equity caps were raised upto 100 percent and restrictions were removed. As a result of the simplified procedure and removal of restrictions, many multinational companies of other countries came to our country for expanding their business. During 2009-10, 2010-11and 2012-13, FDI inflow in our country become negative, still in other years there is a consistent growth in rate of FDI in India.

Table 1: FDI Inflows in the Country during the Financial Years from 2000-01 to 2018-19 (upto March 2019) Value in USD Million

S.No.	Financial Year (April-March)	Equity		Re-invested Earnings	Other Capital	Total FDI Inflows	%age Growth over Previous Year
		FIPB Route/ RBI's Automatic Route/ Acquisition Route	FIPB Route/ RBI's Automatic Route/ Acquisition Route	+	+		
1	2000-01	2339	61	1350	279	**4029**	**-**
2	2001-02	3904	191	1645	390	**6130**	**+52%**
3	2002-03	2574	190	1833	438	**5035**	**-18%**
4	2003-04	2197	32	1460	633	**4322**	**-14%**
5	2004-05	3250	528	1904	369	**6051**	**+40%**
6	2005-06	5540	435	2760	226	**8961**	**+48%**
7	2006-07	15585	896	5828	517	**22826**	**+155%**
8	2007-08	24573	2291	7679	300	**34843**	**+53%**
9	2008-09	31364	702	9030	777	**41873**	**+20%**
10	2009-10	25606	1540	8668	1931	**37745**	**-10%**

11	2010-11	21376	874	11939	658	**34847**	**-08%**
12	2011-12	34833	1022	8206	2495	**46556**	**+34%**
13	2012-13	21825	1059	9880	1534	**34298**	**-26%**
14	2013-14	24299	975	8978	1794	**36046**	**+5%**
15	2014-15	30933	978	9988	3249	**45148**	**+25%**
16	2015-16	40001	1111	10413	4034	**55559**	**+23%**
17	2016-17	43478	1223	12343	3176	**60220**	**+8%**
18	2017-18	44857	664	12542	2911	**60974**	**+1%**
19	2018-19	44366	693	13570	5746	**64375**	**+6%**
CUMULATIVE TOTAL (from April, 2000 to March, 2019		**422900**	**15645**	**140016**	**31457**	**609838**	**-**

Source: Reserve Bank of India (RBI) bulletins and DIPP (Department of Industrial policy and promotion).

Country- wise Approval of FDI in India

Table 2: Share of Top Investing Countries FDI Equity Inflows *(Financial years):*

Amount Rupees in Crores (US$ in Million)

Ranks	**Country**	**2016-2017 (April to March)**	**2017-18 (April to March)**	**2018-19 (April to March)**	**Cumulative Inflows (April 2000 to March 2019)**	*%age to total Inflows (in terms of US $)*
1	**MAURITIUS**	105,587 **(15,728)**	102,492 **(15,941)**	57,139 **(8,084)**	738,156 **(134,469)**	32%
2	**SINGAPORE**	58,376 **(8,711)**	78,542 **(12,180)**	112,362 **(16,228)**	505,946 **(82,998)**	20%
3	**JAPAN**	31,588 **(4,709)**	10,516 **(1,633)**	20,556 **(2,965)**	173,332 **(30,274)**	7%
4	**NETHERLANDS**	22,633 **(3,367)**	18,048 **(2,800)**	27,036 **(3,870)**	162,251 **(27,352)**	7%
5	**U.K.**	9,953 **(1,483)**	5,473 **(847)**	9,352 **(1,351)**	40,370 **(26,789)**	6%
6	**U.S.A.**	15,957 **(2,379)**	13,505 **(2,095)**	22,335 **(3,139)**	146,372 **(25,556)**	6%
7	**GERMANY**	7,175 **(1,069)**	7,245 **(1,124)**	6,187 **(886)**	65,477 **(11,708)**	3%
8	**CYPRUS**	4,050 **(604)**	2,680 **(417)**	2,134 **(296)**	51,544 **(9,869)**	2%
9	**UAE**	4,539 **(675)**	6,767 **(1,050)**	6,356 **(898)**	39,310 **(6,652)**	2%
10	**FRANCE**	4,112 **(614)**	3,297 **(511)**	2,890 **(406)**	36,825 **(6,643)**	2%
TOTAL FDI INFLOWS FROM ALL COUNTRIES		**291,696 (43,478)**	**288,889 (44,857)**	309,867 **(44,366)**	**2,378,886 (420,142)**	-

Source: FDI Statistics, Department of Industrial Policy& Promotion, Ministry of Commerce & Industry, Government of India, 2019.

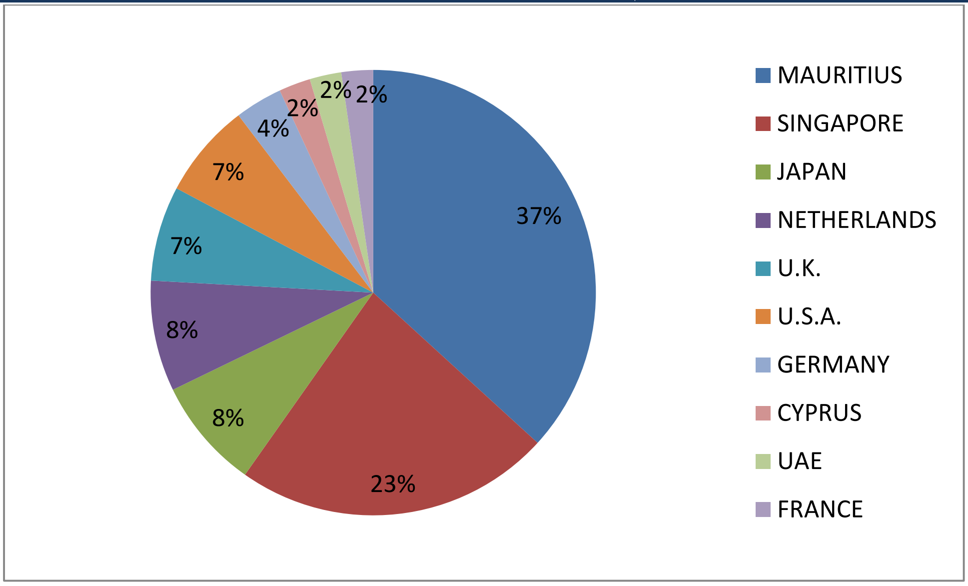

Figure2: *Percentage of Total Inflows from Different Countries in India*

(In terms of US Dollar)

Table 2 depicts the country having the highest FDI in India. The report shows that the MAURITIUS country has the highest foreign investor in India with 32%. After Mauritius, Singapore and invest the highest FDI in India with 20%. Japan and Netherlands both have 7% FDI in India. After that U.K. and U.S.A both have 6% FDI in India.

Sectorial Composition of FDI Inflows

Table 3: Sectors Attracting Highest FDI Equity Inflows

Amount in Rs. Crores (US$ in Million)

Ranks	*Sector*	*2016-17 (April – March)*	*2017-18 (April – March)*	*2018-19 (April,18– March,19)*	*Cumulative Inflows (April, 00 - March, 19)*	*% age to total Inflows (In terms of US$)*
1	SERVICES SECTOR **	58,214 (8,684)	43,249 (6,709)	63,909 (9,158)	416,301 (74,149)	18%
2	COMPUTER SOFTWARE & HARDWARE	24,605 (3,652)	39,670 (6,153)	45,297 (6,415)	221,756 (37,238)	9%
3	TELECOMMUNICATIONS	37,435 (5,564)	39,748 (6,212)	18,337 (2,668)	188,249 (32,826)	8%
4	CONSTRUCTION DEVELOPMENT: Townships, housing, built-up infrastructure and construction-development Projects	703 (105)	3,472 (540)	1,503 (213)	119,614 (25,046)	6%
5	TRADING	15,721 (2,338)	28,078 (4,348)	30,963 (4,462)	143,599 (23,021)	5%
6	AUTOMOBILE INDUSTRY	10,824 (1,609)	13,461 (2,090)	18,309 (2,623)	123,989 (21,387)	5%
7	CHEMICALS (OTHER THAN	9,397 (1,393)	8,425 (1,308)	13,685 (1,981)	91,062 (16,582)	4%

	FERTILIZERS)					
8	DRUGS& PHARMACEUTICALS	5,723 (857)	6,502 (1,010)	1,842 (266)	84,165 (15,983)	4%
9	CONSTRUCTION (INFRASTRUCTURE) ACTIVITIES	12,478 (1,861)	17,571 (2,730)	15,927 (2,258)	93,873 (14,805)	4%
10	POWER	7,473 (1,113)	10,473 (1,621)	7,330 (1,106)	77,889 (14,316)	3%

***** Services sector includes Financial, Banking, Insurance, Non-Financial / Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis***

Source: FDI Statistics, Department of Industrial Policy& Promotion, Ministry of Commerce & Industry, Government of India, 2019.

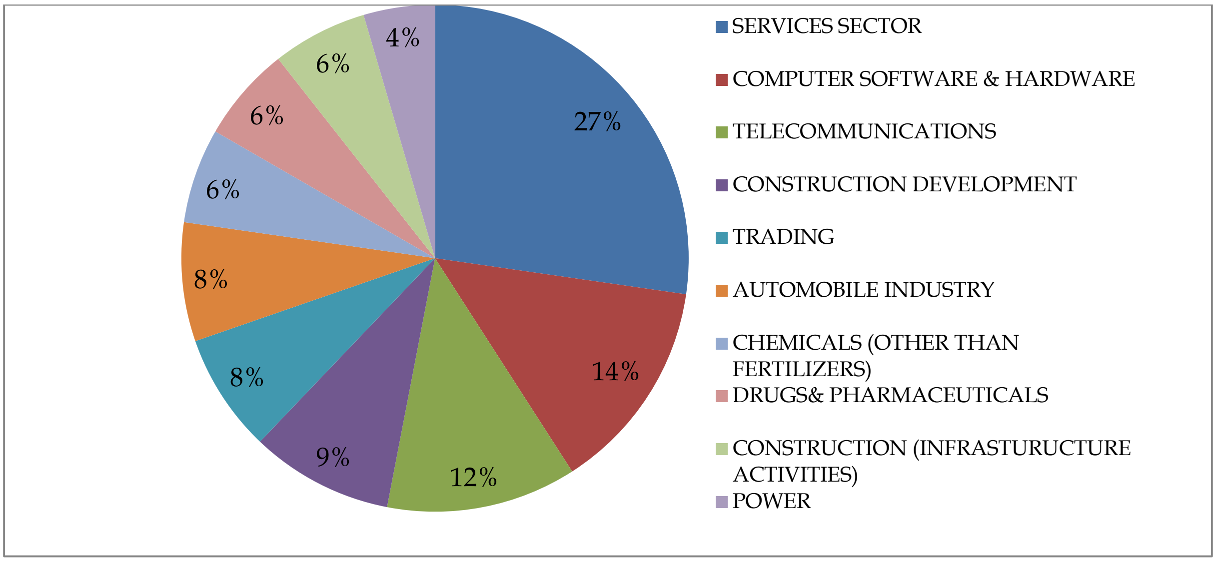

***Figure3**: Percentage of Sectors Attracting Highest FDI Equity Inflows*

Table 3 depicts the sector having the highest FDI equity inflow in India. The report shows that Service sector has the highest FDI Equity inflow 18%, followed by Computer Software and Hardware, Telecommunications, Construction development, Trading and Automobile Industry sector having 9%, 8%, 6%, 5% and 5% respectively. Other sectors like Chemicals, Drugs and Pharmaceuticals and Construction activities carries 4% each, whereas the least is Power sector which is 3%.

Equity FDI Inflows in India

Table 4: DPIIT's –Financial Year- Wise FDI Equity Inflows

S.No.	*Financial Year (April – March)*	*Amount of FDI Inflows*		*%age growth over previous year (in terms of US $)*
FINANCIAL YEARS 2000-01 TO 2018-19		*In Rs Crores*	*In US$ Million*	
1	2000-01	10,733	**2,463**	-
2	2001-02	18,654	**4,065**	**(+) 65 %**
3	2002-03	12,871	**2,705**	**(-) 33 %**
4	2003-04	10,064	**2,188**	**(-) 19 %**
5	2004-05	14,653	**3,219**	**(+) 47 %**
6	2005-06	24,584	**5,540**	**(+) 72 %**
7	2006-07	56,390	**12,492**	**(+)125 %**

8	2007-08	98,642	**24,575**	**(+) 97 %**
9	2008-09	142,829	**31,396**	**(+) 28 %**
10	2009-10	123,120	**25,834**	**(-) 18 %**
11	2010-11	97,320	**21,383**	**(-) 17 %**
12	2011-12	165,146	**35,121**	**(+) 64 %**
13	2012-13	121,907	**22,423**	**(-) 36 %**
14	2013-14	147,518	**24,299**	**(+) 8%**
15	2014-15	181,682	**29,737**	**(+) 22%**
16	2015-16	262,322	**40,001**	**(+) 35%**
17	2016-17	291,696	**43,478**	**(+) 9%**
18	2017-18	288,889	**44,857**	**(+) 3%**
19	2018-19	309,867	**44,366**	**(-) 1%**
CUMULATIVE TOTAL (from April, 2000 to March, 2019)		2,378,887	**420,142**	

Source: RBI's Bulletin May, 2019

Table 8 shows the total amount of FDI inflows in India during the last 19 years i.e. 2000 to 2019. The FDI inflow from 2000-2001 i.e. 10,733 Crore Rs. in 2001-02 it was 18,654 Crore rupees. It shows the Good result in the FDI inflows in India. Little bit ups and downs in FDI inflows up to 2005-06, but after that great hike in the year 2007-08 i.e. 98,642crore rupees as compare to earlier years.

In 2008-2009 there was a huge investment in FDI in 142,829 Crore Rupees and so on. From 2011-12 there is a tremendous growth in FDI which is increased by 64%. From 2014 to 2016 there is an average growth of 22% and 35% respectively in FDI. After that in 2016 to 2018 there is only growth of 9 % and 3% during this period in FDI. In current year 2019, there is an investment of 309,867 Crore Rs till the March 2019.

CONCLUSION

FDI trend in Indian Economy is moving in upward direction that too with the good speed. On the basis of above analysis it is quite evident to say that Indian economy is one of the most promising investment destination for most of the developed and developing nations. And we should grab this opportunity by liberalising the rule and regulations for FDI in India. FDI covered marvellous growth with 52 percent increase in 2001-02. From 2004-05 to 2005-06 there is a consistent growth of 40 and 48 percent respectively which shows that there is a marvellous growth in FDI. During 2006-07, there is a highest growth of FDI i.e. 155 percent which was tremendous growth in FDI during the last few years. In 2006, an inclusive review was done for the FDI policies adopting a more rationalized approach. In this review, procedures become very simple, equity caps were raised upto 100 percent and restrictions were removed. As a result of the simplified procedure and removal of restrictions, many multinational companies of other countries came to our country for expanding their business. During 2009-10, 2010-11and 2012-13, FDI inflow in our country become negative, still in other years there is a consistent growth in rate of FDI in India.

MAURITIUS country has the highest foreign investor in India with 32%. After Mauritius, Singapore and invest the highest FDI in India with 20%. Japan and Netherlands both have 7% FDI in India. After that U.K. and U.S.A both have 6% FDI in India. So foreign investment by many other countries is very low or equal to Nil, so government has to make efforts to attract other countries to invest their money in India.

Service sector has the highest FDI Equity inflow 18%, followed by Computer Software and Hardware, Telecommunications, Construction development, Trading and Automobile Industry sector having 9%, 8%, 6%, 5% and 5% respectively. Other sectors like Chemicals, Drugs and Pharmaceuticals and Construction activities carries 4% each, whereas the least is Power sector which is 3%. FDI equity inflow in major sectors like Power, Chemicals, Drugs and Pharmaceuticals, Construction is very low, so there is requirement of more investment in these areas and government have to make more efforts to attract more foreign investment in these sectors.

FDI inflow from 2000-2001 i.e. 10,733 Crore Rs. in 2001-02 it was 18,654 Crore rupees. It shows the Good result in the FDI inflows in India. Little bit ups and downs in FDI inflows up to 2005-06, but after that great hike in the year 2007-08 i.e. 98,642crore rupees as compare to earlier years. In 2008-2009 there was a huge investment in FDI in 142,829 Crore Rupees and so on. From 2011-12 there is a tremendous growth in FDI which is increased by 64%. From 2014 to 2016 there is an average growth of 22% and 35% respectively in FDI. After that in 2016 to 2018 there is only growth of 9 % and 3% during this period in FDI. In current year 2019, there is an investment of 309,867 Crore Rs till the March 2019.

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