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A Study of Foreign Direct Investment in India

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Abstract
Indian economy is one of the fastest emerging economies of the world which attracts a remarkable amount of foreign direct investments every year. However, there have been reports for the past few years showing inconsistency in inflows of foreign direct investment in India and also the GDP of India is observed to be in decreasing trend. This gives rise to the need of studying multiple facets of such investments. This paper aims at studying the trends of FDI inflows in India and ascertaining the countrywise FDI inflows and sector-wise distribution of such investments in the country. This study is based on secondary data collected from various reliable sources. Simple statistical tools like CAGR (Compound Annual Growth Rate), and Percentage have been used for purpose of study. The study reveals varying trends of FDI inflows in India in the recent years which is in line with the world economy but it is generally on a rising side. The study also reveals that Mauritius has been the top investing nation in India and among all the sectors the service sector attracts the maximum FDI from various nations over the period of study. The data collected for the purpose of study is limited to almost last two decades and is entirely based on Indian economy only.

Introduction

Foreign Direct investment (FDI) is one of the most striking feature of globalised world today.Today, in the globalised world there is exponential growth of FDI in developed and developing countries. FDI flows are rising faster than all other investment. Foreign Direct investment (FDI) is become very important investment nowadays. It involves transfer of resources and acquisition of control. FDI create employment , transfer technology. FDI has become a battle ground in the emerging markets. The main objective of allowing FDI is to achieve high economic growth to grab opportunities of technological up gradation and to access global managerial skills and practices. FDI is a critical driver of economic growth and major source of non -debt financial resources for the economic development of India. FDI plays significant role in the economic growth of country and plays very important role in the economic development of developing countries like India. Today, FDI has become an instrument of International economic integration. It was found that the FDI have emerged in India since the British rule but its presence was negligible. But when India got the independence, FDI become a part of its national interest.FDI is playing a important role in economic growth for India since 1991 , when national economy opened to global trade. Due to the favourable business environment and Govt. policy of India foreign capital keeps flowing into the country . FDI inflows has been increased in India to rise to peaks till 2008

Furthermore, there are three components of FDI. These are: equity capital, reinvested earnings and other capital or intra-company loans. FDI flows are recorded as a net of capital account credits less debits between direct investors as well as their foreign affiliates in a given financial year.

Basically, there are two routes for foreign investors to invest in India. These are:

(i) Automatic Route: On this route, no approval of authority is required by the foreign investor. He can invest in any company without the need for Government approval. For example: Agriculture, Plantation, Construction Development, Industrial Parks, Railway Infrastructure, Financial Services, Insurance, Pension Sector, etc.

(ii) Government Route: No investment can be made on this route without prior approval of the Indian Government. For example: Print media, Satellites-establishment and operations, Banking-public sector, etc.

There is no uniform rate of FDI in India. This rate can be 26% or 49% or 51% or 74%. Some industries even allow 100% FDI, that is, entire resources of these industries may come from foreign entities. Moreover, different rates as well as routes can be observed in a particular sector. For example: Defense and Telecom services (Automatic- up to 49% and Government- beyond 49%), etc.

There are some industries where FDI is strictly prohibited under any route. For example: Cigars, cigarettes or any related tobacco industry, lottery, betting or gambling businesses, Investments in chit funds, Nidhi company, Trading in Transferable Development Rights (TDRs), etc.

In some sensitive sectors like defense, insurance and media, there have always been conflicting views on FDI, as the integrity and security of our nation are at stake. So, FDI caps apply for many of such industries. For example, the defense industry only allows 49% foreign direct investment (automatic route) beyond which government approval must be obtained.

Review of Literature

Ramesh Abhishek (2018)1 DIPP Secretary said Foreign direct investment in India increased to USD 61.96 billion in 2017-18. He also said that during the last four years, foreign inflows jumped to USD 222.75 billion from USD 152 billion.

According to the UNCTAD's Investment Trends Monitor (2018)2 India was the 10th largest recipient of global FDI in 2017 and remained to be the topmost destination for Greenfield capital investment – even ahead of China and the US, if reckoned on an approval basis. FDI inflows were mostly in Mauritius and Singapore due to amended double taxation avoidance agreement between these countries. Further, the increase in foreign capital was mainly due to higher flows into the communication services, retail and wholesale trade, computer services and financial services

Roohi Javed and Farheen Javed (2018)3 , in their study outlines the definition of foreign direct investment (FDI) and the non-adherence to international norms in measuring the FDI inflows by India. The study also finds that portfolio investors and round-tripping investments have been important contributors to India's reported FDI inflows. The FDI inflows during 1991–1992 to April 2015–December 2015 were taken for study. FDI as a strategic component of investment is needed by India for achieving the economic reforms and maintaining the pace of growth and development of the economy. The impact of FDI inflows into India in recent years is highly significant.

Vanita Tripathi, Ritika Seth and Varun Bhandari (2015)4 in their article attempts to find out the relationship between FDI and six macroeconomic factors like Exchange rate (` per $), Inflation (WPI), GDP/IIP (proxy for Market size), Interest rate (91 days T-bills), Trade Openness and S&P , CNX 500 Equity Index (profitability) using monthly and quarterly data for the period starting from July 1997 to December 2011. The results reveals a significant correlation between FDI and all macroeconomic variables (except for Exchange rate). Causality results reveals that IIP/GDP, WPI and S&P CNX 500 Equity Index are Granger causing FDI inflows in India while Trade Openness is Granger caused by the same. All the macroeconomic variables taken in the article (except exchange rate) are significantly affecting FDI inflows and the overall explanatory power of the regression model, Since, they found positive relationship between FDI and profitability and also a higher investor's confidence in domestic market act as a stimulus in getting more FDI inflows

Sahana Joshi and R.V. Dadibhavi (2008), in their paper aims to identify a set of factors based on economic literature and theory that influence FDI flows across 19 Indian states. The study also analyses the influence of totality of investment climate using nine variables viz., market size, availability of good quality physical infrastructure as proxied through Telecommunication infrastructure and power availability, level of urbanization, and industrialization, availability of quality human capital and technical manpower, presence of Research and Development Institutions and export oriented units.

Objectives of the Study

The following are the objectives of the present study.

- To study the trends and patterns of flow of FDI in India
- To analyze the country-wise flow of FDI into India
- To ascertain the sector-wise distribution of FDI inflows in India.

Limitations of the Study

- The present study is entirely based on Indian economy only.

- The study is limited to only last nineteen financial years. So, the findings of this study reflect this period only.

Scope of the Study

(i) To evaluate the trends of FDI inflows into India, data have been collected for the period 2000-01 to 2018-19.

(ii) To study the country-wise flow of FDI and its sector-wise distribution in India, data have been collected for the period 2000-01 to 2018-19.

Research Methodology

Data Collection: 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 other. Online database of Indian economy, articles, journals, newspapers, etc. have also been referred.

Statistical Tool: 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.

Data on FDI (April,2000 to March, 2019)

Table-1 Financial Year Wise FDI Inflows(Trends)

(A). TOTAL FDI INFLOWS (Equity inflows +Reinvested earnings+ Other Capital) Amt:US $ in Millions

S.No.	FY 2000-01 to 2018-19	FORIEN DIRECT INVESTMENT					
		EQUITY			Other Capital	FDI flows into INDIA	
		FIPB Route/RBI Automatic/Acquisition Route	Equity Capital of unincorporated bodies	Re-investment Earnings		Total FDI Inflows	% Growth Over Previous Year(US$)
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(1-19)	**422900**	**15465**	**140016**	**31457**	**609838**	
CAGR						15.7%	

Source : RBI's Bulletin March, 2019 dt. 11.05.2019; (Table No. 34-FOREIGN INVESTMENT INFLOWS)

(B) TOTAL FDI EQUITY INFLOWS (Excluding amount remitted through RBI 'S NRI Scheme)

S.No		Amount of FDI Inflows	

	F.Y.2000-01 to 2018-19(April-March	(RS. Crores)	US $ Million	Percentage Growth Over Previous Year (in terms of US $)
01	2000-01	10,733	2,463	-
02	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	08
15	2014-15	181,682	29,737	22
16	2015-16	262,322	40,001	35
17	2016-17	291,696	43,478	09
18	2017-18	288,889	44,857	03
19	2018-19	309,867	44,366	-01
Cumulative Total(01 To 19)		2,378,887	420,142	

Source: dipp.nic.in

Note: All figures for financial years 2014-15 to 2018-19 are provisional subject to reconciliation with RBI.

Interpretation (1)

Table I (A) and I (B) demonstrate cumulative amount of foreign direct investment inflows in India from 2000-01 to 2018-19. Since 2000, the Indian government has brought about vital amendments to FDI policies to ensure that the nation is transforming into an immensely attractive destination for investing capital. The inflows of FDI into India has increased dramatically following the 1991 reforms. However, ever since these reforms took place, India has witnessed ups and downs in the FDI inflows over the years, especially during the period of study, that is, 2000-01 to 2018-19. Many a times it has been evident that India has seen sudden or gradual decrease in the percentage of FDI inflows as compared to the previous year, like during 2001-02 to 2003-04 citing reasons like Gujrat earthquakes, pathetic attack on World Trade Centre (now WTO) and Indian Parliament by the terrorists in the year 2001 or during 2008-09 to 2012-13 due to decline in global economy following the 2008 US Subprime Crisis and the 2012-13 Euro Crisis. Consequently, the investor confidence declined globally.

However, India's FDI equity inflows have declined over the last few years and has even hit the lowest level in 2018-19 with a steep decline in foreign investments in telecom, power and pharmaceuticals sectors. Another reason for such a decline may be the slowing down of Indian economy in the recent past due to demonetization, implementation of GST, job crisis, poor consumer demand, farmer crisis and NPA burden among others. It is, however, to be noted that the new government has alleviated 87 FDI rules across as many as 21 sectors over the past three years. For example, it has opened up historically conservative sectors like railway and defence for foreign direct investment.

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

Interpretation (2)

As a matter of fact, FDI comprises Equity Capital, Reinvested Earnings and Other Capital. This other capital component further comprises amount remitted through RBI's NRI schemes.

Table I(A) indicates cumulative amount of FDI inflows (constituting Equity Capital, Reinvested Earnings and Other Capital) as US$ 609,838 Million showing a positive growth of 6% in the financial year 2018-19 over the previous financial year 2017-18. On the contrary, Table I(B) indicates cumulative amount of FDI equity inflows (excluding amount remitted through RBI's NRI schemes) as US$ 420,142 Million showing a negative growth of 1%. It implies that RBI's NRI schemes constitute a major part of total FDI inflows in India ignoring which the growth rate of inflows reduced from (+)6% to (-)1%

Table II. Share Of Top Investing Countries' Fdi Equity Inflows (Financial Years): Amount: Rupees in Crores (US$ in Millions)

Ranks	Country	Cumulative Inflows (April,00-March,19)	% of Total Inflows (in terms of US $)
01	Mauritius	738,156 (134,469)	32
02	Singapore	505,946 (82,998)	20
03	Japan	173,332(30,274)	07
04	Netherland	162,251 (27,352)	07
05	U.K.	140,370 (26,789)	06
06	U.S.A	146,372 (25,556)	06
07	Germany	65,477 (11,708)	03
08	Cyprus	51544(9,869)	02
09	UAE	39,310 (6,652)	02
10	France	36,825 (6,643)	02
TOTAL FDI Inflows from all		2,378,886	
countries		(420,142)	

Source: dipp.nic.in

*Includes inflows under NRI Schemes of RBI

Note:

- Percentage worked out in terms of US$ & FDI inflows received through FIPB/SIA+ RBI's Automatic Route + acquisition of existing shares only.
- Figures are provisional.

Interpretation From the above table 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 inflows during this period.

Table III Sectors Attracting Highest Fdi Equiiy Inflows:

Amount: Rupees in Crores (US$ in Millions)

Rank	Sector	Cumulative Inflow (April, 2000 to March, 2019	% of Total Inflows(US$)
01	Service	416,301 (74,149)	18
02	Computer Hardware & Software	221,756 (37,238)	09
03	Telecommunication	188,249 (32,826)	08
04	Construction Development (Township)	119,614 (25,046)	06
05	Trading	143,599 (23,021)	05
06	Automobile Industry	123,989 (21,387)	05
07	Chemicals (Other than Fertilizers	91,062 (16,582)	04

08	Drugs and Pharmaceuticals	84,165 (15,983)	04
09	Construction (Infra-structure) Activities	93,873 (14,805)	04
10	Power	77,889 (14,316)	03
Total FDI Inflows from All Countries*		2,378,886 (420,142)	

Source: dipp.nic.in
Note: Figures are provisional.

Interpretation

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 & Software and Telecommunication sectors with 9% and 8% 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

Finding

Findings Pertaining to Objective 1

(i) 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 percent.

(ii) 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 has even hit the lowest level in 2018-19 with a steep fall in foreign investments in telecom, power and pharmaceuticals sector

Findings Pertaining to Objective 2

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.

Findings Pertaining to Objective 3

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

Conclusion

Trends are just relative numbers which might differ from that of 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 inflows like economic, institutional and political factors. These factors include economic growth of the country, market size, resource location, and return on investment, inflation, government regulation, political stability, tax policies and foreign exchange rate among others.

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