

# FDI INFLOWS IN INDIA

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## **Abstract**

FDI plays an important role in the development of economy. The present study is an attempt to quantify relationships between economic development and disaggregated factors that constitute elements of 'economic freedom' in current terminology. The study is based on secondary data and statistical tool such as average percentage, CAGR, correlation have been applied. The study attempts to examine the trends of FDI inflows in India during the period 1991- 92 to 2017-18. The study also examines the year wise and sector wise FDI inflows and foreign technology Transfer. Efforts made by the government in order to attract maximum FDI are also studied.

## **Introduction**

In India, capital is scarce resource which is required for development of the economy and there are many issues which the economy is facing such as low rate of capital formation, unemployment, illiteracy, health, R&D, obsolete techniques of production. The inflow of foreign direct investment will help in acquiring the capital, generation of

employment, improved technology and more scope of foreign trades.

Foreign Direct Investment is basically the means of buying or expanding the business activity by investing in production or business process by one country into another country.<sup>1</sup> FDI refers to movement of capital from abroad i.e. 'inflow' that invest in the production capacity of the any economy. FDI helps in facilitation of international trade among the countries and transfer of technology, knowhow and resources"<sup>2</sup> With the liberalization of Indian economy in 1991and the reduction of restriction on FDI, the various caps on sectors were raised and allowed the FDI inflow through automatic routes except a few sectors which are of strategic importance.<sup>3</sup>

Various measures were taken by GOI to promote FDI inflows during the year 1991-1992 to 2016-17, India has raised total amount of 43224 US million dollar FDI. Major global companies have considered India as their third most favored destination for FDI investment after China and US

However the emerging countries like Hong Kong, Mexico, China and Brazil, surpassed India as the most attractive destination and apart from this India is getting tough competition from the new countries namely Philippines, Indonesia, Vietnam, Mexico, South Africa, and Myanmar.<sup>6</sup>

A company in India receives the Foreign Direct Investment under two different routes: 1. Automatic Route: it is the route under which the FDI in various sectors or activities are only permitted to the extent that does not require any type of prior approval from the Government or the Reserve Bank of India. 2. Government Route: under this route prior approval of the Government for the FDI is required which is further considered by the Foreign Investment Promotion Board (FIPB), Department of Economic Affairs, and Ministry of Finance.<sup>7</sup>

## **OBJECTIVES:**

### **The purpose of the present study is:**

- To study the trends of FDI inflows in India during the period 1991- 92 to 2017-18.
- To analyze the year wise and sector wise FDI inflows in India.
- To analyse the share of top investing countries FDI inflow.

## **Hypotheses**

The following are the hypotheses of the study

- FDI inflows into India since 1991 show an increasing trend.
- Impact of FDI on selected economic indicators is positive.

## **Methodology**

The present study is based on the secondary sources of data collection which is collected from various issues of RBI (Reserve Bank of India) bulletin, Handbook of Statistics on the Indian economy, Economic Survey, Centre for Monitoring Indian Economy (CMIE) and Central Statistical Organization (CSO). Data of 25 years have been taken for the study from the year 1990-91 to 2016-17 i.e. the various factors influencing the inflow of FDI into the country is analyzed after the Post Liberalization period. The data collected has been analyzed through various statistical tools like, simple arithmetic mean, growth rates, percentages, frequency tables and correlation etc.

## **II. REVIEW OF LITERATURE**

Singh Kr. Arun and Agarwal P.K., (2012) “Foreign direct investment: The big bang in Indian retail”, have analysed the relationship of foreign direct investment and Indian retail businesses for the policy development for FDI in single brand as

well as in multi brand sector. It has been concluded that FDI in multi brand retail provide superior technology and the level of employment and the liberalization of FDI policies will boost up the investment in India that would help the economy to integrate into worldwide market.<sup>9</sup>

Sen (2011) revealed the impact on service sector due to increased Foreign Direct Investment. His study shows that there was a positive impact of foreign direct investment on service sector and on the contribution of service sectors towards Gross Domestic Product. Sectors such as hotels and restaurants, trade, service sectors had contributed more in growth.<sup>10</sup>

Sharma Reetu and Khurana Nikita (2013) in their research based on the sector-wise distribution of FDI used a data from 1991-92 to 2011-2012. In their study they discussed about the several of foreign direct investment and suggested recommendations for the same. In this study they revealed that, Indian economy is primary economy which is based on agricultural sector and the foreign direct investment in agricultural sector should be promoted.<sup>11</sup>

**Singhania Monica** and Gupta Akshay in their paper named **Determinants of foreign direct investment in India** examine the various factors affecting foreign direct investment (FDI) in

India. It was suggested that among of all the macroeconomic variables taken under study, only GDP, inflation rate and scientific research are significant and the changes in the FDI Policy during years 1995-1997 have had a positive impact on FDI inflows into the Indian economy.<sup>12</sup> Sayed Mohammad Tariq Zafar, Professor (Dr.)Waleed Hmedat and Syed Ashfaq Ahmed analysed the impact of FDI on Indian economy and concluded that FDI played significant role in the acceleration of the economy. Country like India has been found latecomer to the FDI and its resources like cheap labour force, mineral reserves, liberalized policy and the growing market potentials have attracted foreign direct investment and because of this the GOI re-amended its FDI policy in the year 2015 – 16 and took several policy initiatives.<sup>13</sup>

### **Inflow of Foreign Investment in India**

Total Foreign Investments includes foreign direct investment and foreign portfolio investment. The Gross foreign investment which was 103 US million dollar in the year 1991-92, and further raised to **6133** US million dollar in the year 1996-97, and declined to **2401** US million dollar in 1998-1999, and increased to **43224** US million dollar in the year 2016-17.

FDI inflows during the period 1991-92 to 2016-17 have been shown a positive trend. The FDI inflows rose from 97 US million dollars in the year 1991-92 to **35612** US million dollars in 2016-17. This

increase in FDI inflows is due to the impact of liberalization, privatization and globalisation of the economy, and because of opening up of the capital account. Among the portfolio investment which was 6 US million dollar in 1991-92 increased to 3824 \$ million in the year 1994-95 but shown a downward trend in the year 1998-98 i.e. -61 US \$ million. Further it raised to 32396 US million dollars in 1999-2000. This investment appreciated to 27,433 US million dollars in 2007-08 but later on decreased to -14030 US million dollars in 2008-09 and later on increased to 7612 in 2016-17.

Table No. 1: Projections of Total Foreign

Among the sector wise inflows of FDI in India, from the period of April 2000 to March 2016, out of the cumulative inflows which is 258,354 US million dollars, service sector ranked top in attracting highest amount of FDI equity inflows which is 18% of the total share, followed by Computer software & hardware (8%), telecommunications and other sectors.

Investment in India (Amount in US \$ Million)

Year	FDI	FPI	Total
	US\$ Million	US \$ Million	US \$ Million
2017-18	28098	19718	47816
2018-19	29370	20505	49875
2019-20	30641	21292	51933

From the analysis it is clear that Foreign Investment in India comprising of foreign direct investment and foreign portfolio investment have projected to be increased and making total inflows to 51933 US Millions dollars by the end of the year 2020.

## Share of top investing countries in FDI equity inflows

Among the country wise share of top investing countries in FDI equity inflows, it is found that Mauritius had 33% cumulative inflows for the period from 2000-2016 which is followed by Singapore's at 16% share, U.K. with 8% share, Japan with 7% share, USA and Netherland with 6% share, Cyprus with 3% share, Germany with 3% share, France and UAE 2% and 1% share respectively.

## Sector wise FDI inflows in India

Table 2: Results of correlation Analysis

Variables	Karl Pearson's correlation coefficient (r)
FDI Inflows and GDP at factor cost	0.96822
FDI inflows and Total Trade	0.96912
FDI inflows and Foreign Exch. Reserves	0.96520

This table shows the relationship between FDI inflows and other economic indicators such as GDP, Total Trade and Foreign exchange reserves, during the period from 1991-92 to 2016-17 and reveals that there is a very high degree of correlation between the FDI inflows and the other economic variables.

### Conclusions

FDI inflows in India shows positive trend, Gross inflows of foreign investment includes 63% share of direct investment and portfolio investment of 37% share. The reason behind this increase in FDI is because of the liberalized foreign policy and various measures adopted by GOI. Among the country wise investment of FDI inflows Mauritius and Singapore had 48% share cumulative inflows. While with the perspective of sector wise inflows of FDI, service sector tops in attracting highest inflows of FDI which is followed by manufacturing sector.

In the present study it was hypothesized that, the inflow of FDI have positive growth trend during the period from 1991-92 to 2016-17 which has been accepted and in the recent global scenario and it is expected that FDI will grow in coming years. Further the correlation analysis revealed that there is a high degree of correlation between the FDI inflows and the economic indicators such as GDP, Total Trade and Foreign exchange reserves, and about the Opening of FDI in multi-brand retail sector, it has mixed consequences in India.

### References

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**TABLE 1 : FOREIGN INVESTMENT INFLOWS**

(Amount in US \$ Million)

<b>Year</b>	<b>FDI</b>	<b>FPI</b>	<b>Total</b>
	<b>US \$ Million</b>	<b>US \$ Million</b>	<b>US \$ Million</b>
1990-91	97	6	<b>103</b>
1991-92	129	4	<b>133</b>
1992-93	315	244	<b>559</b>
1993-94	586	3567	<b>4153</b>
1994-95	1314	3824	<b>5138</b>
1995-96	2144	2748	<b>4892</b>
1996-97	2821	3312	<b>6133</b>
1997-98	3557	1828	<b>5385</b>
1998-99	2462	-61	<b>2401</b>
1999-00	2155	3026	<b>5181</b>
2000-01	3272	2590	<b>5862</b>
2001-02	4734	1952	<b>6686</b>
2002-03	3217	944	<b>4161</b>
2003-04	2388	11356	<b>13744</b>
2004-05	3713	9287	<b>13000</b>
2005-06	3034	12494	<b>15528</b>
2006-07	7693	7060	<b>14753</b>
2007-08	15893	27433	<b>43326</b>
2008-09	22372	-14030	<b>8342</b>
2009-10	17966	32396	<b>50362</b>
2010-11	11834	30293	<b>42127</b>
2011-12	22061	17170	<b>39231</b>
2012-13	19819	26891	<b>46711</b>
2013-14	21564	4822	<b>26386</b>
2014-15	31251	42205	<b>73456</b>
2015-16	36021	-4130	<b>31891</b>

2016-17	35612	7612	<b>43224</b>
Total	278024	234843	512868
%	54%	46%	100%

Source: Report of RBI

**Table 3: SHARE OF TOP INVESTING COUNTRIES IN FDI EQUITY INFLOWS**

*(Financial year-wise) (From April 2000 to March 2016)*

*(Amount in US \$ Million)*

<b>Ranks</b>	<b>Country</b>	<b><u>2013-14</u></b> <b>( April - March)</b>	<b><u>2014-15</u></b> <b>(April – March)</b>	<b><u>2015-16</u></b> <b>(April,15 – March, 16)</b>	<b><u>Cumulative</u></b> <b><u>Inflows</u></b> <b>(April '00 - March ,,16)</b>	<b><u>%age to</u></b> <b><u>total</u></b> <b><u>Inflows</u></b> <b><u>(in terms</u></b> <b><u>of US \$)</u></b>
1.	<b>MAURITIUS</b>	29,360 (4,859)	55,172 (9,030)	<b>54,706</b> (8,355)	<b>480,363</b> (95,910)	<b>33 %</b>
2.	<b>SINGAPORE</b>	35,625 (5,985)	41,350 (6,742)	<b>89,510</b> (13,692)	<b>256,667</b> (45,880)	<b>16 %</b>
3.	<b>U.K.</b>	20,426 (3,215)	8,769 (1,447)	<b>5,938</b> (898)	<b>115,592</b> (23,108)	<b>8 %</b>
4.	<b>JAPAN</b>	10,550 (1,718)	12,752 (2,084)	<b>17,275</b> (2,614)	<b>110,671</b> (20,966)	<b>7 %</b>
5.	<b>U.S.A.</b>	4,807 (806)	11,150 (1,824)	<b>27,695</b> (4,192)	<b>94,575</b> (17,943)	<b>6 %</b>
6.	<b>NETHERLANDS</b>	13,920 (2,270)	20,960 (2,426)	<b>17,275</b> (2,612)	<b>94,533</b> (17,314)	<b>6 %</b>

7.	<b>GERMANY</b>	6,093 (1,038)	6,904 (1,125)	6,361 (986)	44,870 (8,629)	3 %
8.	<b>CYPRUS</b>	3,401 (557)	3,634 (598)	3,317 (508)	42,681 (8,552)	3 %
9	<b>FRANCE</b>	1,842 (305)	3,881 (635)	3,937 (598)	26,525 (5,111)	2 %
10.	<b>UAE</b>	1,562 (255)	2,251 (367)	6,528 (985)	21,648 (4,030)	1 %

**Note:** The amount of FDI inflows includes for Govt. route (FIPB/SIA), RBI's automatic route, acquisition of shares and amount remitted through RBI's-NRI Schemes (2000-2002).

**Table 4: Sector wise FDI inflows in India**

(Amount in US \$ Million)

<b>Ranks</b>	<b>Sector</b>	<b><u>2013-14</u></b> <b>(April -</b> <b>March)</b>	<b><u>2014-15</u></b> <b>(April-</b> <b>March)</b>	<b><u>2015-16</u></b> <b>(April,15 –</b> <b>March, 16</b> <b>)</b>	<b><u>Cumulative</u></b> <b><u>Inflows</u></b> <b>(April '00 -</b> <b>March „16)</b>	<b>% age to</b> <b>total</b> <b>Inflows(In</b> <b>terms of</b> <b>US\$)</b>
1.	<b>SERVICES SECTOR **</b>	13,294 (2,225)	27,369 (4,443)	45,415 (6,889)	258,354 (50,792)	18 %



2.	<b>CONSTRUCTION DEVELOPMENT: TOWNSHIPS, HOUSING, BUILT-UP INFRASTRUCTURE</b>	7,508 (1,226)	4,652 (769)	727 (113)	113,936 (24,188)	8 %
3.	<b>COMPUTER SOFTWARE &amp; HARDWARE</b>	6,896 (1,126)	14,162 (2,296)	38,351 (5,904)	112,184 (21,018)	7 %
4.	<b>TELECOMMUNICATIONS</b>  (radio paging, cellular mobile, basic telephone services)	7,987 (1,307)	17,372 (2,895)	8,637 (1,324)	92,729 (18,382)	6 %
5.	<b>AUTOMOBILE INDUSTRY</b>	9,027 (1,517)	16,760 (2,726)	16,437 (2,527)	81,394 (15,065)	5 %
6.	<b>DRUGS &amp; PHARMACEUTICALS</b>	7,191 (1,279)	9,052 (1,498)	4,975 (754)	70,097 (13,849)	5 %

7.	<b>CHEMICALS (OTHER THAN FERTILIZERS)</b>	4,738 (878)	4,658 (763)	9,664 (1,470)	59,555 (11,900)	4 %
8.	<b>TRADING</b>	8,191 (1,343)	16,755 (2,728)	25,244 (3,845)	68,837 (11,872)	4 %
9.	<b>POWER</b>	6,519 (1,066)	4,296 (707)	5,662 (869)	52,613 (10,476)	4 %
10	<b>HOTEL &amp; TOURISM</b>	2,949 (486)	4,740 (777)	8,761 (1,333)	49,710 (9,227)	3 %

Sources: <https://business.mapsofindia.com/fdi-india/sectors/>

**Note:** (i)\*\* Services sector includes Financial, Banking, Insurance, Non-Financial / Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis

(ii) FDI Sectoral data has been revalidated / reconciled in line with the RBI, which reflects minor changes in the FDI figures (increase/decrease) as compared to the earlier published sectoral data.

Table 5: FDI Inflows and Related Economic Indicators in India (Amount in Rs. Crore)

Year	FDI inflows	GDP at factor cost	Foreign exchange Reserves	Total Trade
1990-91	174	26650	23850	50500
1991-92	316	613,528	30744	644272

1992-93	965	703,723	60420	764143
1993-94	1838	817,961	79780	897741
1994-95	4126	955,386	74384	1029770
1995-96	7172	1,118,586	94932	1213518
1996-97	10015	1,301,788	115905	1417693
1997-98	13220	1,447,613	138005	1585618
1998-99	10358	1,668,739	165913	1834652
1999-00	9338	1,858,205	197204	2055409
2000-01	18404	2,000,743	264036	2264779
2001-02	29269	2,175,260	361470	2536730
2002-03	24681	2,343,864	490129	2833993
2003-04	19830	2,625,819	619116	3244935
2004-05	27234	2,971,464	676387	3647851
2005-06	39730	3,390,503	868222	4258725
2006-07	103037	3,953,276	1237965	5191241
2007-08	139884	4,582,086	1283865	5865951
2008-09	191418.6	5,303,567	1259665	6563232
2009-10	179642	6,108,903	1361013	7469916
2010-11	164255	7,248,860	1506130	8754990
2011-12	220000	8,391,691	1588420	9980111
2012-13	186869	9,388,876	1828380	11217256
2013-14	218595	10,472,807	2137640	12610447
2014-15	276400	11386145	2378740	13764885
2015-16	364145.7	12196006	2398200	14594206
2016-17	404057.2	13010843	2760850	15771693

Source: various Reports of RBI