Research Paper
Impact Factor: 6.089
Peer Reviewed Monthly Journal
www.ijmdrr.com

IJMDRR
E- ISSN –2395-1885
ISSN -2395-1877

# A STUDY ON FOREIGN DIRECT INVESTMENT IN INDIA

**Prof. Mallikarjuna N. L*    Mrs. Ashwini Katwa****

**Department of PG Studies and Research in Management, Karnataka State Akkamahadevi Women's university, Jnanshakti Campus, Torvi, Vijayapura,Karnataka.*

****Research Scholar, Karnataka State Akkamahadevi Women's University, Department of PG Studies and Research in Management, Jnanshakti Campus, Torvi, Vijayapura,Karnataka.*

***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 country wise 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.*

***Keywords: Indian economy, foreign direct investment inflows, Trend.***

## Introduction

Investment, which is also called creation of capital, is a vital determinant of a country's economic growth. It is required to a great extent for the economy to grow. An appropriate level of capital together with labour, natural resources and advanced technology can bring about optimum growth levels in the economy by way of creation of capital goods which may be in physical, financial or human form. The other name of this capital is investment which comprises not only domestic but also foreign investments. Foreign investment inflows can reduce the domestic savings gap. On a general basis, these inflows foster growth in a developing economy. Multinational Corporation (MNC) is a proper tool to bring all the economies together on the global platform. There is a direct proportion between the expansion of these inflows and that of the MNCs. Backward and underdeveloped countries interested in speedy economic development are required to import world-class machinery, technical know-how, entrepreneurial skills, and foreign investments. Most of the world economies seeking growth, both short-term and long-term, have to some extent depended on foreign capital inflows.

It cannot be denied that this capital infusion from foreign countries contribute to the ongoing phenomenon of economic growth, industrialization and modernization in numerous ways. As a matter of fact, foreign direct investment is a significant component of total foreign investments. In such investments, the investor (an individual, a firm, a company, etc) from a different (foreign) nation invests in a business situated in host nation. Usually, the foreign investor acquires assets of the business or establishes business operations to get a controlling interest in the business established in host nation and is directly involved in its management when he invests either directly or via other affiliates.

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: Defence 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 defence, 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**

Many published articles are available on foreign direct investment. A review of relevant literature has been done. Bajpai and Dasgupta (2004) 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 inflows for India with the framing of suitable policies. Goswamia and Saikiab (2012) in their study FDI and its relation with exports in India, status and prospect in north-east region have explored the trends of FDI in India and determined the association between FDI and exports during 1991 to 2011. Patil and Kadam (2014) 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 inflows as well as its effect on its economic development over the years 2000-2010. Azhar and Marimuthu (2012) 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. Anitha (2012) in Foreign Direct Investment and Economic Growth in India has explained the importance of FDI for developing and underdeveloped nations 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 inflows in India, identification of country-wise inflows and ascertaining their sector wise distribution in India.

IJMDRR
E- ISSN –2395-1885
ISSN -2395-1877

**Objectives of the Study**

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

**Limitations of the Study**

1. The present study is entirely based on Indian economy only. (ii) The study is limited to only last nineteen financial years. So, the findings of this study reflect this period only.
2. 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.
3. To study the country-wise flow of FDI and it's 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 others. 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 it's sector-wise distribution in India, simple calculation using Percentage has been done for easy understanding.

**Total FDI Equity Inflows (Excluding Amount Remitted Through Rbi's Nri Schemes)**

| SL NO | FY 2000-01 TO 2018-19 | In Rs Crores | In US $ Million | Percentage Growth Over Previous Year (in terms of US $) |
|---|---|---|---|---|
| 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% |

IJMDRR
E- ISSN –2395-1885
ISSN -2395-1877

| | | | | |
|---|---|---|---|---|
| 19 | 2018-19 | 309,867 | 44,366 | (-)1% |
| Cumulative Total (from April,2000 to March,2019) | | 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.

Interpretations Table 1 demonstrates 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 have 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 Gujarat 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.

**Table -2, Table Ii. Share of Top Investing Countries' Fdi Equity Inflows (Financial Years):**

| **Ranks** | **Country** | **Cumulative Inflows (April,00-March,19)** | **Percentage of Total Inflows (in terms of US $)** |
|---|---|---|---|
| **1** | Mauritius | 738,156 **(134,469)** | 32% |
| **2** | Singapore | 505,946 **(82,998)** | 20% |
| **3** | Japan | 173,332 **(30,274)** | 7% |
| **4** | Netherlands | 162,251 **(27,352)** | 7% |
| **5** | U.K. | 140,370 **(26,789)** | 6% |
| **6** | U.S.A. | 146,372 **(25,556)** | 6% |
| **7** | Germany | 65,477 **(11,708)** | 3% |
| **8** | Cyprus | 51,544 **(9,869)** | 2% |
| **9** | UAE | 39,310 **(6,652)** | 2% |
| **10** | France | 36,825 **(6,643)** | 2% |
| Total FDI Inflows from All | | 2,378,886 | |

Source: dipp.nic.in *Includes inflows under NRI Schemes of RBI.

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

Interpretation From the above table 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 inflows during this period.

IJMDRR
E- ISSN –2395-1885
ISSN -2395-1877

**Table 3 Sectors Attracting Highest Fid Equity Inflows: Amount: Rupees in Corers (US$ in Millions)**

| Ranks | Sector | Cumulative Inflows (April,00-March,19) | Percentage of Total Inflows (in terms of US $) |
|---|---|---|---|
| 1 | Service Sector | 416,301 (74,149) | 18% |
| 2 | Computer Hardware & Software | 221,756 (37,238) | 9% |
| 3 | Telecommunication | 188,249 (32,826) | 8% |
| 4 | Construction Development (Township) | 119,614 (25,046) | 6% |
| 5 | Trading | 143,599 (23,021) | 5% |
| 6 | Automobile Industry | 123,989 (21,387) | 5% |
| 7 | Chemicals (Other than Fertilizers) | 91,062 (16,582) | 4% |
| 8 | Drugs & Pharmaceuticals | 84,165 (15,983) | 4% |
| 9 | Construction (Infra-structure) Activities | 93,873 (14,805) | 4% |
| 10 | Power | 77,889 (14,316) | 3% |
| 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, 15976 A STUDY ON FOREIGN DIRECT INVESTMENT IN INDIA PJAEE, 17 (7) 2020 financing, hotels, insurance, transport and communication, real estate and business services, social and personal services exceed 60 percent of India’s GDP.

Consequently, the investor confidence declined globally. However, India has also witnessed sudden as well as gradual surge in the percentage of FDI inflows as compared to the previous years at multiple occasions. For instance, during 2006-07, a sudden increase of more than 100 percent in the FDI inflows was evident following positive amendments in in the FDI policy in 2006 whereby the FDI procedure was made relatively simple, the capital limits were raised to 100 percent and many restrictions were also lifted, thus resulting positive impact on civil aviation. During 2007-08, the Indian government had organized events like Destination India and also the DIPP (Department of Industrial Policy Promotion) website was made user-friendly with the support of providing answers to investment-related questions to attract more investments.

After the prolonged period of line in the global economy during 2008-09 to 2012-13, the FDI inflows in India finally recovered during 2014 due to the new government policies, initiatives like Make in India, Start Up India, Skill India, development of smart cities and investor-friendly business environment facilitating ease of doing business in the country. The further changes in the FDI policy in 2017 by the government proved fruitful on eliminating several levels of bureaucracy and making proposals for FDI to be made increasingly rational, swift and positive under government approval route.
FINDINGS

**Findings Pertaining to Objective 1** 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. 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. 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.

**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.

**Recommendations**
According to previous studies by other researchers, India has been able to attract huge amount of FDI only in the post-reform period, that is, since July 1991. However, it cannot be denied that it is still lagging behind many other developing nations based on the quantum of FDI inflows 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 sectors where foreign investors can enter through automatic route and formulate policies favorable for investments in other sectors alongside service sector.

References

1. Anitha, R. (2012). Foreign Direct Investment and Economic Growth in India. International Journal of Marketing, Financial Services & Management Research, 1(8). 15977 A STUDY ON FOREIGN DIRECT INVESTMENT IN INDIA PJAEE, 17 (7) 2020
2. Azhar, S. and Marimuthu, K. (2012). An Overview of Foreign Direct Investment in India. EXCEL International Journal of Multidisciplinary Management Studies.
3. Bajpai, N. and Dasgupta, N. (2004), "Multinational Companies and Foreign Direct Investment in China and India", Columbia Earth Institute, Columbia University, Working Paper No. 2.
4. Goswamia, C. and Kanta Saikiab, K. (2012). FDI and its relation with exports in India, status and prospect in north east region. Procedia - Social and Behavioral Sciences, 37, pp.123-132.
5. Patil, D. and Kadam, S. (2014). Effects of FDI on Indian Economy: A Critical Appraisal. Journal of Economics and Sustainable Development, 5(19).

**Websites Referred**

(a) www.ibef.org (b) www.statisticstimes.com (c) www.coursehero.com (d) https://witanworld.com (e) https://taxguru.in (f) www.nso.gov.pg (g) https://dipp.gov.in.