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A STUDY ON TRENDS AND FLOWS OF FOREIGN DIRECT INVESTMENT IN INDIA

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ABSTRACT: Foreign Direct Investment acts as a great force in triggering the development of an economy. Sometimes domestically available capital is inadequate for the purpose of overall development of the country. The inadequacy of capital is fulfilled by foreign direct investment by bridging the gap between domestic savings and investment. Developing countries like India is positively looking forward for FDI inflows. India has start attracting much larger foreign investments after the Economic Reforms, 1991. In 2016, Indian Government had simplified the FDI regime and brought majority of sectors under automatic route. The present work is an attempt to study various sectors opened for FDI under automatic and government route. The present study also focused on the trends of FDI Inflows, FDI Equity Inflows, country wise FDI inflows, year wise FDI inflows and sector wise FDI inflows to India. The study is based on Secondary data which have been collected through reports of the Ministry of Commerce and Industry, Department for Promotion of Industry and Internal Trade, Government of India, Reserve Bank of India. The study concludes that Mauritius emerged as the most dominant source of FDI and Service Sector emerges as the top host of FDI inflows in India.

Index Terms- Foreign Direct Investment, Department for Promotion of Industry and Internal Trade, Foreign Capital, Cash Inflows, Host Country

1. INTRODUCTION

Capital formation is a crucial determinant of economic development and this statement is gaining importance in the modern times. The economic development of today's industrialized economies is supported by foreign capital. Not only this, the developing countries are also looking forward to foreign capital for rapid industrialization (Rajeswari and Akilandeswari, 2015). FDI acts as a great force in triggering the development of an economy and this is the reason for which the different economies of the world are trying their best to fetch more and more FDI inflows (Bose, 2012; Chang & Rosenzweig, 2001).

Inward foreign direct investment and outward foreign direct investment are the two types of FDI, which constitutes a "net FDI inflow" (positive or negative) and "stock of foreign direct investment" (a cumulative number for a given period). FDI usually takes the form of joint venture, starting a subsidiary, participation in top management/acquiring a stake in an existing firm, transfer of technology and expertise (Ramesh & Packialakshmi, 2014).

2. IMPORTANCE OF FOREIGN DIRECT INVESTMENT

FDI is a sturdy source of finance. It is an international investment which reflects the objective of a resident entity in one obtaining a 'lasting interest' and control in an enterprise resident in another economy (Bose, 2012; Bandelji, 2002). Basically, FDI is a win-win situation to both home and the host country. Both countries are directly interested in FDI, because they benefit a lot from such type of investment.

FDI brings new technologies, better processes and products, organizational technologies and management skills (Ramesh & Packialakshmi, 2014). FDI is an impetus to such sectors that needed a boost and economic attention and resolve the issues that continue to challenge the host country. FDI fulfills the objectives of both the host country and home country in numerous ways:

Importance of FDI from Country Perspectives

- FDI contributes to Gross Domestic Product, Gross Fixed Capital Formation, and positive Balance of Payments. There is a positive association between FDI inflows and higher GDP.
- Host countries often channelize FDI investments into infrastructure building and other projects to boost economic development. FDI stimulates export markets, generates foreign exchange revenue and helps in debt servicing repayments.
- FDI facilitates the transfer of technology, organizational practices, managerial practices and skills (Kaur et al., 2014).
- FDI presents greater opportunities for co-production, joint ventures with local partners, joint marketing arrangements, licensing, etc (Ramesh & Packialakshmi, 2014).
- Greater competition from new companies can 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 may improve corporate governance standards.

Importance of FDI from Investors Perspective

Foreign investors are not far behind in reaping the fruits of FDI. Following are the benefits for the home country:

- FDI opens the gate for international trade technology. International trade broadens the market of the existing products, helps in achieving the global market pie.
- FDI reduces the dependency on existing markets, which in turn increases the firm's sales and profitability.
- FDI sharpens the domestic competitiveness of the home country, maintains its cost competitiveness in the domestic market set-up, and stabilize the seasonal market fluctuations.

3. OBJECTIVES OF THE STUDY

a) To study the factors attracting Foreign Direct Investment in India.
b) To study the trend and flow of Foreign Direct Investment in India after economic reforms.

4. WHAT MAKES INDIA ATTRACTIVE FOR FDI

Indian economy is considered as one of the most promising host country for foreign direct investment. In 2015, India has attracted US$ 44 billion foreign funds, representing an increment of 26 percent over the year before. American and European investors keep a close eye on Indian environment and found it very lucrative for investment (Kaur et al., 2014).

Availability of Abundant and Diversified Resources: India is among the few nation which is blessed with diversified and abundant resources. India has forest, surrounded by water from three sides, guarded by mountain ranges, equipped with mining and oil reserves. This is the advantage, which foreign companies want to encash by investing in India.

Infrastructural Development: The Indian government has taken a number of initiatives to create world class infrastructure in the country. The government wants to boost the private investment cycle in Roads and Railways. Keeping this objective in mind the budgetary allocation (in the Union Budget 2016) of Roads and Railways has been increased to Rs 218000 crore (US$ 31.98 billion). The construction equipment industry is expected to generate revenue of US$ 22.7 billion by 2020 (IBEF, 2016).

Availability of Cheap Labour Force: Due to the huge population, India has abundant and cheap labour force. In 2012, India offers the services of 487 million workers, which is second largest in the world. Every year India is adding nearly 13 million new workers to its labour pool. Foreign investors can set up their plant anywhere from Himachal Pradesh (which is in the north) to Kanyakumari (which is in the south), from Gujarat (which is in the west) to Bengal (which is in the east).

Public Private Partnerships: Post 2000-01, India enjoys a rapid growth in sectors namely infrastructure, energy, water supply, power, irrigation, mining, airports and telecommunications. And the reason behind this economic growth is Public Private Partnership (commonly known as PPP). Central Government is actively promoting PPP and has initiated several institutional reforms to ensure India as leading 3P market. In the XII plan (2012-2017) $1 trillion dollar investment is planned in infrastructure and the private sector is expected to share atleast half of this huge figure (DOEA, MOF, GOI, 2016).

IT Revolution and English Literacy: In the mid-1980's positive word-of-mouth communication was spread about India's talented IT personnel. Later, American minicomputer firms realize that Indian engineers were not only good in writing software but they were cheap too (Sharma, 2008). And now India is recognized as the global leader in IT and ITES. Being the global leader, foreign firms who will invest in India will get cheap information access and IT capabilities. The whole world considered Indian youth to be very energetic, talented and well versed in English language.

Openness towards FDI: In September 2014, Indian Government has launched "Make in India" program, which brought radical changes in FDI policy regime. Government has made the following amendments: increase in sectoral caps, bringing more activities under automatic route and ease of conditionalities for foreign investment. These changes have made India the most open economy in the world for FDI. Number of International Agencies has rated India as top most FDI Investment Destination (DIPP & GOI, 2016).

Improvement in domestic financial institutions and banks: India is witnessing a remarkable improvement in the banking operations in terms of quality of assets and efficiency. Indian banking system remains unscathed by 2008 global financial crisis which catches the eyes of global investors (KPMG, 2012). Almost every bank is offering electronic banking services i.e. electronic fund transfer, debit card, credit card, wire transfers.

5. FDI INFLOWS: YEAR-WISE

Post 2000, India enjoy a big boost in FDI, as US$ 4,53,183 million has been invested in this rising economy. Table I encapsulates the foreign cash inflows in India during April 2000 - March 2020. A FDI of US$ 4029 million was received in year 2000- 2001. One of the reasons attributable to this figure was the introduction of Foreign Exchange Management Act, 1999. This act formed a new foreign exchange management regime which is consistent with the framework of the World Trade Organisation. Thereafter an increasing trend was witnessed during 2001-02 in foreign fund inflows. But the trend was not continued for a longer time period and the level of FDI goes down by 18 and 14 percent in 2002-03 and 2003-04 respectively.

From 2004, foreign cash inflows again took some momentum. Financial Year 2006-2007 witnessed a remarkable growth rate of 146 percent. FDI inflows exhibit an increasing trend till 2008-09. In 2008-09, FDI reached a figure of US$ 41,873 million. But a negative growth rate was observed during 2009-10, 2010-11 and 2012-13 i.e. 10 percent, 8 percent and 26 percent respectively.

Lowering down of FDI for consecutive years became a matter of discussion in India. A number of initiatives were introduced and one such was "Make in India" program. In this program major impetus was given to Foreign Direct Investment. FDI norms were liberalised and as a result FDI inflows rose by 25 percent (US$ 45,148 million) during 2014-15. Following a positive trend, FDI reaches a respectable mark of US$ 60,974 million and US$ 62,001 million in April 2017-18 and April 2018-19 respectively. Moreover, the figure US$ 73,455 million was considered as the highest ever FDI inflows in a particular financial year.

Table I: Financial Year-Wise FDI Inflow

	Financial Years 2000-2001 to 2019-2020		
S. No.	Financial Year (April to March)	Total FDI flow in US$ Million	% Growth Over Previous Year
1.	2000-01	4,029	-
2.	2001-02	6,130	(+) 52 %
3.	2002-03	5,035	(-) 18 %
4.	2003-04	4,322	(-) 14 %
5.	2004-05	6,051	(+) 40 %
6.	2005-06	8,961	(+) 48 %
7.	2006-07	22,826	(+) 146 %
8.	2007-08	34,843	(+) 53 %
9.	2008-09	41,873	(+) 20 %
10.	2009-10	37,745	(-) 10 %
11.	2010-11	34,847	(-) 08 %
12.	2011-12	46,556	(+) 34 %
13.	2012-13	34,298	(-) 26 %
14.	2013-14	36,046	(+) 05 %
15.	2014-15	45,148	(+) 25 %
16.	2015-16	55,559	(+) 23%
17.	2016-17	60,220	(+) 8%
18	2017-18 (P)	60,974	(+) 1%
19	2018-19 (P)	62,001	(+) 2%
20	2019-20 (P)	73,455	(+) 18%

Cumulative total (from April, 2000 to March, 2020)	6,80,919	-

Source: DPIIT (2020)

Table II highlights the FDI equity inflows in India from January 2014 to March 2020. The entirety of foreigners' stakes in the economy was valued at Rs. 1,73,979 crores in 2014. In 2014 amendments were made in FDI norms making its regime simple and liberal. Along with amendments several programs like "Make in India" were launched which focused on making India a global hub for manufacturing, design and innovation. India is now reaping the success of these initiatives as the economy is steadily becoming the host of overseas investment. For example, an increment of Rs. 78,583 crore was recorded in the total FDI equity inflows during 2015. In January 2016, amount of FDI equity inflows was Rs. 33,461 crores which unfortunately declines in subsequent months. But in June 2016 India was declared as the most liberal economy for FDI and as a result FDI starts increasing in India. The month of July, August, and September witnessed a rising level of capital inflows i.e. Rs. Rs. 27,430 crore, Rs. 32,150 crore and Rs. 34,366 crore respectively.

In 2017 and 2018, the FDI inflows were Rs. 2,69,945 crore and Rs. 2,90,697 crore respectively. In comparison to 2016, a decrease in inflows of Rs. 41,698 crore (2017) and Rs. 20,946 crore (2018) were recorded. On 8 November, 2016 demonetisation of currency was announced in India. Due to the ban of Rs. 500 and Rs. 1000, the financial inflows were largely declined in the first quarter of 2017. In the next year 2017, a second largest financial reform "Goods and Service Tax" was introduced in India. Government was very hopeful about FDI at the time of implementing GST but it don't had the same impact as it was expected. Rather a 3% decline was observed in pre and post GST regime. Prior to GST regime, the growth rate of FDI in India was 27%, which unfortunately dropped to 24% after the implementation of GST.

Later in 2019, India attracted a good amount of financial inflows (Rs. 3,34,614 crores) due to relaxed investment barriers in sectors like insurance, retail and coal processing. As a consequence of these reforms, India become the 9th largest recipient of financial inflows in 2019 (Economic Times, 2020). Till March 2020, positive FDI inflows were recorded on charts as India positively shaped the investor's sentiments.

Table II: Calendar Year-Wise FDI Equity Inflows

Calendar Year January 2014 to March 2020	Amount of FDI Equity Inflows (In Rs. Crore)						
	2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
January	13,589	27,880	33,461	27,067	15,386	31,181	39,719
February	12,557	20,397	21,268	8,118	20,478	20,404	24,025
March	21,558	13,221	16,530	16,126	21,569	25,019	31,804
April	10,290	22,620	22,345	20,826	35,104	36,463	
May	21,373	24,564	13,271	26,159	30,479	26,481	
June	11,508	13,115	15,111	20,101	19,597	50,567	
July	21,022	12,769	27,430	31,112	19,025	30,774	
August	7,783	14,446	32,150	51,198	17,441	18,164	
September	14,963	19,181	34,366	13,632	33,472	19,551	
October	16,288	34,105	41,353	17,454	34,595	22,808	
November	9,486	19,399	31,631	20,019	12,495	20,036	
December	13,562	30,865	22,727	30,956	31,056	33,166	
Total FDI Equity Inflows	1,73,979	2,52,562	3,11,643	2,69,945	2,90,697	3,34,614	95,548

Source: DPIIT(2020, 2019, 2018a, 2018b, 2017, 2016, 2015, 2014)

6. FDI Inflows: Sector-Wise

India has been a major recipient of FDI inflows in several sectors. And the credit for this goes to the government efforts which are improvising the ways of doing business. Table V reveals top 10 sectors attracting highest FDI equity inflows in India from the period April 2000 to March 2020. The influx of FDI inflows during the period 2017-18 to 2019-20 were majorly in Service Sector. Services sector includes the following activities: Financial, Banking, Insurance, Non-Financial/Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis. Percentage contribution of service sector to total FDI Inflows (in terms of US$) is 17 percent. With a contribution of 10%, Computer Hardware & Software it strongly stood at second position in overall FDI contribution. Though the contribution of Construction Development sector was quite low in 2014-16, (8 percent). Next highest share was of Telecommunication (8 percent) followed by Trading (6 percent), Construction Development (5 percent), Automobile Industry (5 percent), Chemicals (4 percent), Construction Activities (4 percent), Drugs & Pharmaceuticals (4 percent), and Hotels & Tourism (3 percent).

Table V: Sector-Wise FDI Equity Inflows *(Rupees in crores)*

Rank	SECTOR	2017-18 (April-March)	2018-19 (April-March)	2019-2020 (April-March)	Cumulative inflows (April'00-March'2020)
1.	Service Sector	43,249	63,909	55,429	471,730
2.	Computer Hardware & Software	39,670	45,297	54,250	276,006
3.	Telecommunication	39,748	18,337	30,940	219,189
4.	Trading	28,078	30,963	32,406	176,005
5.	Construction Development	3,472	1,503	4,350	129,964
6.	Automobile Industry	13,461	18,309	19,753	143,742
7.	Chemicals (Other than Fertilizers)	8,425	13,685	7,492	98,554
8.	Construction (Infrastructure) Activities	17,571	15,927	14,510	108,383
9.	Drugs & Pharmaceuticals	6,502	1,842	3,650	87,814
10.	Hotel & Tourism	7,279	7,590	21,060	91,779

Source: DPIIT (2020, 2019, 2018a, 2018b, 2017)

7. FDI Equity Inflows: Country-Wise

Table VI highlights the country wise FDI inflows in India during April 2000 - March 2020. The cumulative FDI inflows in India from April 2000 to March 2020 are Rs. 2,732,444 crores. Out of this amount approximately 86 percent FDI is contributed by under mentioned ten countries. During April' 19 – March' 2020 maximum equity inflows were from Mauritius i.e. Rs. 57,785 crores.

Overall FDI analysis highlights that Mauritius is the top source of foreign direct investment: Rs. 795,941 crores flowed into India from April 2000 to March 2020 (30 percent of the total investment). It is because India has Double Taxation Avoidance Agreement (DTAA) with Mauritius. Singapore emerged as the second most dominant source of foreign funds in India. Singapore adds 21 percent to India's FDI corpus i.e. Rs. 609,562 crores followed by Netherlands (7 percent), Japan (7 percent), U.S.A. (6 percent), United Kingdom (6 percent), Germany (3 percent), Cyprus (2 percent), France (2 percent), and Cayman Islands (2 percent).

Table VI: Country-Wise FDI Equity Inflows *(Rupees in crores)*

Rank	Name of the country	2017-18 (April-March)	2018-19 (April-March)	2019-2020 (April-March)	Cumulative inflows (April'00- March 2020)
I	Mauritius	102,492	57,139	57,785	795,941
II	Singapore	78,542	112,362	103,615	609,562
III	Netherlands	18,048	27,036	46,071	208,322
IV	Japan	10,516	20,556	22,774	196,105
V	U.S.A.	13,505	22,335	29,850	176,222
VI	United Kingdom	5,473	9,352	10,041	150,411
VII	Germany	7,245	6,187	3,467	68,944
VIII	Cyprus	2,680	2,134	6,449	57,993
IX	France	3,297	2,890	13,686	50,511
X	Cayman Islands	7,932	7,147	26,397	49,848
	FDI from remaining countries	39,159	42,729	33,423	368,585
	Total FDI Inflows From All Countries	2,88,889	309,867	353,558	2,732,444

Source: (DPIIT, 2020, 2019, 2018a, 2018b, 2017)

8. Conclusion

In this dynamic and hyper volatile environment no business organization is certain about tomorrow. This uncertainty pushes them to acquire new markets and destinations to survive. To reduce the risk arises from uncertainty many companies opt for Foreign Direct Investment. A number of executives consider young India as their right choice for capital investment. Emerging India strongly stood at 9th position as a recipient of foreign direct investment across the world in 2019. Bright future of Indian economy is the top factor that drives investment in India. Other factors instrumental in bringing FDI in India are availability of cheap labor and raw materials, efficient and productive human resources, sound infrastructure, untapped large market, investor's protection, efficient promotion mechanisms and liberal regulatory framework. The Government of India had introduced certain changes in FDI Policy that includes bringing more sectors/activities under automatic route, increase in sectoral caps and easing of conditionalities for foreign investment. Liberalising of FDI regime in India will leads to larger influx of foreign corpus which in turns contributes to growth of investment, incomes and employment. Due to the simplification of FDI governing norms the inflows of FDI is witnessing a big boost in India. From April 2000-March 2020 a FDI corpus of US$ 6,80,919 million had been accumulated. India recorded its largest-ever percentage increase in FDI (146 percent) when it received US$ 22,826 million in 2006-2007. The study also reveals that Mauritius emerged as the most dominant source of FDI contributing Rs. 795,941 crores of the total investment whereas maximum foreign equity funds of Rs. 103,615 crores were received from Singapore during the fiscal year 2019-2020. Large part of foreign equity investment (April' 00-March' 2020) in India is contributed by ten countries which is Rs. 2,732,444 crores while the remaining countries contributes Rs. 368,585 crores. Moreover, Services Sector is the host of maximum foreign investments i.e. Rs. 471,730 crores during April' 00 - March' 2020. Computer Hardware & Software sector accounted for a steeply rising share of FDI stocks in India. Other sectors catches the eyes of investors are Telecommunication and Trading with capital inflows of Rs. 219,189 crores and Rs. 176,005 crores respectively. FDI corpus in different sectors from different countries has allowed India to focus on the areas that need a boost and economic attention.

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