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RECENT TRENDS IN FOREIGN DIRECT INVESTMENT IN INDIA

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ABSTRACT:

Foreign Direct Investment is an investment made by a company or entity based in one country, into a company or entity based in another country. The investing company may make its overseas investment in a number of ways - either by setting up a subsidiary or associate company in the foreign country, by acquiring shares of an overseas company, or through a merger or joint venture. An increase in FDI may be associated with improved economic growth due to the influx of capital and increased tax revenues for the host country. Host countries often try to channel FDI investment into new infrastructure and other projects to boost development. The main objective of the study is to analyze the recent trends in foreign direct investment in India. The data collected from Reserve bank of India from the year 2011 -12 to 2020-21. Therefore, this paper aims to study the recent trends in foreign direct investment in India.

KEYWORDS:

Foreign Direct Investment, Economic growth, Inflows, Investment.

1.1 INTRODUCTION:

Foreign direct investment policies play a major role in the economic growth of developing countries around in the world. Changing to favorable policies in order to attract FDI inflows has become a key battle ground in the emerging markets. Foreign direct investment plays a complementary role in overall capital formation and in filling the gap between domestic savings and investment. At the macro level, foreign direct investment is a non debt creating source of additional external finances; FDI is expected to boost the national income and output level. At the micro level, foreign direct investment is likely to influence the technical and administration effectiveness of the joint ventures, improved skill levels through labor training local firms through technology transfer and spillover effects.

In India, foreign direct investment is reflected as a developmental tool, which aids in attaining self-reliance in various sectors and in inclusive development of the economy. India like various other developing nations, primarily pursued an inward looking expansion stratagem of import substitution along with a constricting policy towards FDI. India's economy is developing rapidly and attracting foreign direct investment (FDI) to boost their domestic value for investment and acquire new technologies and management skills. The promotion of foreign direct investment (FDI) is an important part of the ongoing economic transformation in India. Most of the approaches to attracting foreign direct investment (FDI), due to the indicators that various measures aimed at promoting foreign investment (FDI) are needed and will lead to increased investment. According to UNCTAD (United Nations conference on Trade & Development -World investment report 2020) India stands at the 9th position amongst top ten countries attracting FDI. According to Reserve Bank of India Annual report as on 2020-21 the total foreign direct investment in India is 52,545 US \$ Million.

1.2 REVIEW OF LITERATURE:

Sanjay Vijayakumar (2019)¹, in their article examined that “Foreign Direct Investment inflows into Tamil Nadu declined by 8.5% in 2019-20”, foreign direct investments into Tamil Nadu declined by 8.5% to Rs. 16,624.44 crore in the Financial year 2019-20 from Rs.18,164 crore in 2018-19, official data showed. However, senior state government official said it was a good year for investments for Tamil Nadu, pointing to the number of “ Consent to operate “ Issued. According to provisional data released by the department for promotion of Industry and Internal Trade, Tamil Nadu had attracted an investment of Rs. 7230.44 Crore for the October 2019 to March 2020 period and had accounted for 4.21% of the inflow into the country, the sixth – highest among states. For April- September 2019-20, Tamil Nadu saw foreign direct inflows of Rs.9394 Crore.

Deccan Chronicle (2020)², in their report said that “Despite pandemic, Tamil Nadu attracts 17 investors worth Rs.15,128”, in **Chennai**: As many as 17 MoUs' to bring in fresh industrial investments worth Rs 15,128 crore into Tamil Nadu were signed between a host of foreign companies and the Tamil Nadu government in the presence of respected Chief minister Edappadi K Palaniswami on Wednesday. The companies which signed the MoUs are from Germany, Finland, Taiwan, France, South Korea, Japan, China, USA, Australia, UK and the Netherlands, indicating that Tamil Nadu continues to be a destination for foreign direct investment (FDI). Palaniswami's government has been taking a number of initiatives for economic revival. They include appointment of a high-power committee of economic experts led by former RBI governor C Rangarajan to chalk out strategies in the medium-term, the Industrial Guidance Bureau facilitating single-window clearance of investment proposals, the recent policy announced to boost production of medical equipment and drugs in the wake of Covid-19 and TIDCO offering a Rs.102 crore package to meet working capital requirement of 799 MSMEs', an official release said.

T.Ramakrishnan (2020)³, in their report said that “Foreign direct Investment equity inflows register negative growth in Tamil Nadu”, Tamil Nadu continues to register a negative growth rate in the Foreign Investment (FDI) equity inflow this financial year if the data compiled by the Reserve Bank of India (RBI) and released by the Union government's department for promotion of Industry and Internal trade is any

indication. During 2018-19 too, the state had an adverse rate of 18.7% the performance of the state comes as a contrast to efforts of the state government in wooing overseas investments. The trend of inflow in the current year's three quarters an official of the state Industries Department says that even though there is an overall drop of around 7%, the first quarter saw an increase of 24% over the same period of the previous year and the third quarter about 7% rise.

1.3 OBJECTIVE OF THE STUDY:

The main objective of the study is to analyze the recent trends of foreign direct investment in India.

1.4 DETERMINANTS OF FOREIGN DIRECT INVESTMENT:

The following are the determinants are the foreign direct investment in India:

[1] Stable Policies:

In India, stable economic and socio policies have attracted investors across border. Investors prefer countries which stable economic policies. If the government makes changes in policies which will have effect on the business. The business requires a lot of funds to be deployed and any change in policy against the investor will have a negative effect.

[2] Economic Factors:

Different economic factors encourage inward FDI. These include interest loans, tax breaks, grants, subsidies and the removal of restrictions and limitations. The Government of India has given many tax exemption and subsidies to the foreign investors who would help in developing the economy.

[3] Cheap and Skilled Labor:

There is abundant labor available in India in terms of skilled and unskilled human resources. Foreign investors will take advantages of the difference in the cost of labor as we have cheap and skilled labors. Example: Foreign firms have invested in BPO's (Business process outsourcing) in India which require skilled labor and we have been providing the same.

[4] Basic Infrastructure:

India though is a developing country, it has developed special economic zone where there have focused to build required infrastructure such as roads, effective transportation and registered carrier departure worldwide, Information and communication network/technology, powers, financial institutions, and legal system and other basic amenities which are must for the success of the business. A sound legal system and modern infrastructure supporting an efficient distribution of goods and services in the host country.

[5] Unexplored Markets:

In India there is large scope for the investors because there is a large section of markets have not explored or unutilized. In India there is enormous potential for customer market with large middle class income group who would be target group for new markets. Example: BPO was one of the sector where the investors had large scope exploring the markets where the service was provided with just a call, with almost customer satisfaction.

[6] Availability of Natural Resources:

India has large volume of natural resources such as coal, iron ore, Natural gas etc. If natural resources are available they can be used in production process or for extraction of mines by the foreign investors.

1.5 DATA ANALYSIS AND INTERPRETATION:**1.5.1 GROSS INFLOWS OF FOREIGN DIRECT INVESTMENT IN INDIA FROM 2011 TO 2021:**

The gross inflow of Foreign Direct Investment in India from 2011 to 2021 were given in below table 1.1

Table 1.1
Gross Inflows of Foreign Direct Investment in India from 2011 to 2021

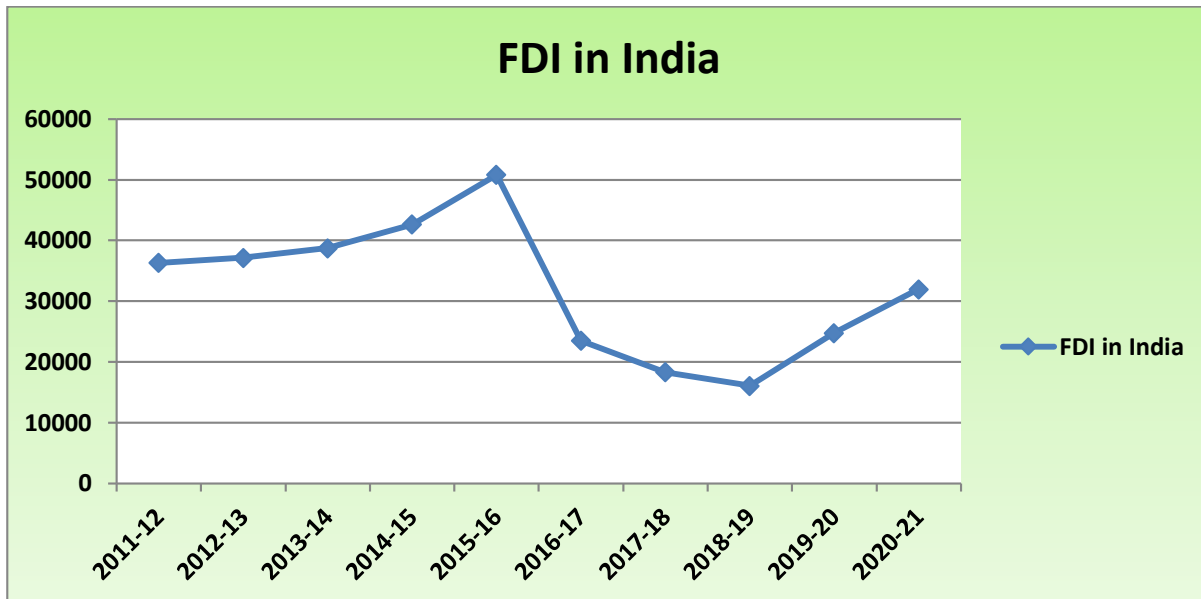
(US\$ million)

Year	FDI in India	Increase/ Decrease	GR %
2011-12	36306	-	-
2012-13	37140	834	2.29
2013-14	38745	1605	4.32
2014-15	42630	3885	10.02
2015-16	50800	8170	19.16
2016-17	23473	-27327	-53.7
2017-18	18286	-5187	-22.0
2018-19	16054	-2232	-12.20
2019-20	24748	8694	54.15
2020-21	31978	7230	29.21
Minimum	16054		
Maximum	50800		
Mean	32016		
Standard Deviation	11178.6		
CAGR	-11.92		

Source: Reserve Bank of India, Annual Report.

Figure 1.1

Gross Inflows of Foreign Direct Investment in India from 2011 to 2021



The Foreign Direct Investment inflow into India in absolute terms has decreased from \$36306 million to \$31978 million for the years 2011-12 to 2020-21. The trends of Foreign Investment inflows into India shows the increasing trends over the year except a few years. The highest annual growth rate viz. 54.15 per cent was recorded in the year 2019-20 and the lowest annual growth rate viz. -53.7 per cent recorded in the year 2016-17. In some of the years under the study periods shows the negative growth rate.

1.5.2 STATE WISE ATTRACTING HIGHEST FDI EQUITY INFLOWS IN INDIA:

State wise attracting highest FDI equity inflows in India were given in below table 1.2

Table 1.2

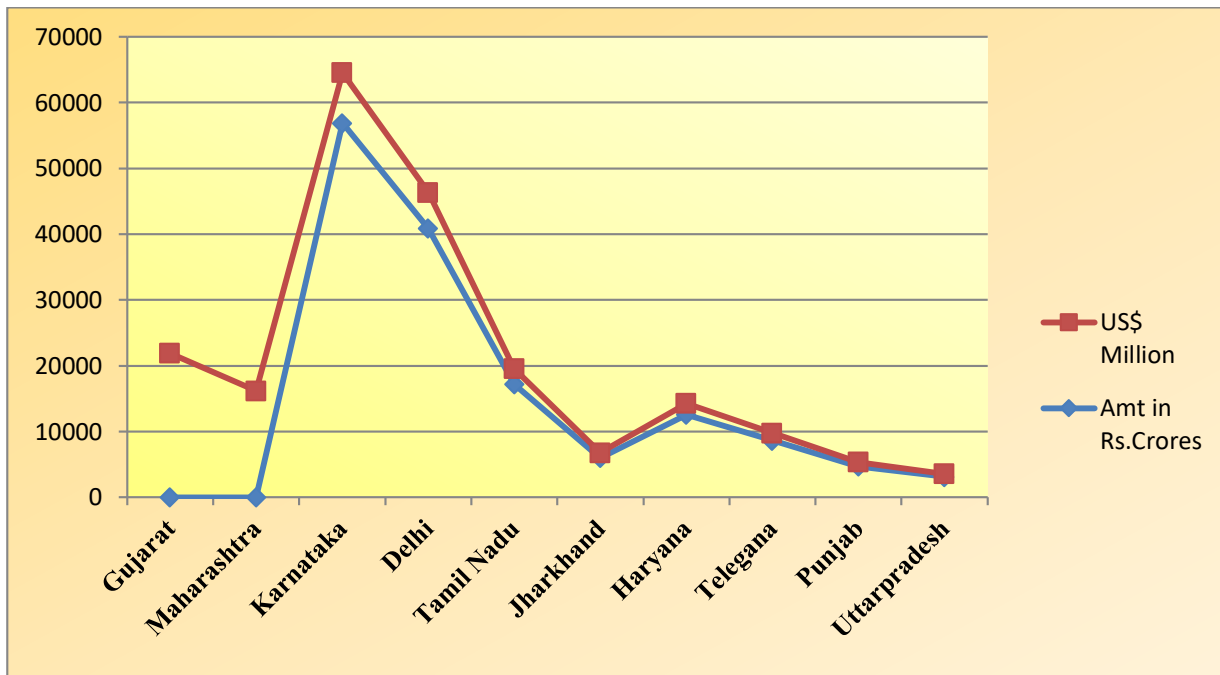
State Wise Highest FDI Equity Inflows in India

S.No	State	Amt in Rs.Crores	US\$ Million
1	Gujarat	1,62,830	21,890
2	Maharashtra	1,19,734	16,170
3	Karnataka	56,884	7,670
4	Delhi	40,864	5,471
5	Tamil Nadu	17,208	2,323
6	Jharkhand	5,993	792
7	Haryana	12,559	1,697
8	Telegana	8618	1,155
9	Punjab	4719	644
10	Uttarpradesh	3,123	422

Source: RBI, Annual Report

Figure 1.2

State wise attracting highest FDI equity inflows in India



From the above table it intercept that among all the states the highest Foreign Direct Investment inflow in India was Gujarat state has highest inflow in India. The analysis of the recent trends in FDI flows at the global level as well as across regions/countries suggests that India has generally attracted higher FDI flows in line with its robust domestic economic performance and gradual liberalization of the FDI policy as part of the cautious capital account liberalization process.

1.6 CONCLUSION:

The study identified that the major factor influencing the inflow of FDI to India, which is poised of various variables collected under FDI and Indian economy. A tactical feature of investment is required for India's sustainable economic growth and development which can be brought on board by Foreign Direct Investment (FDI) through creation of jobs and enhancement of skilful labour. In the present study the researcher, the researcher has analyzed the trends of foreign direct investment in India and Impact of sector wise contributing FDI in India. Therefore, the study concluded that researcher had chosen only selected sectors for the study period and there is positive impact of foreign direct investment in India particularly there is good impact in some sectors such as Automobile sector, Service sector and construction sector. Moreover, the foreign direct Investment companies provide better employment opportunities in India. FDI has had a positive impact on Indian economy which has tremendous growth potential in the coming years. FDI inflows has supplemented domestic capital, as well as technology and skills of existing companies in the country. All of these have contributed to the economic growth of the Indian economy. However, India must concentrate on maximizing political and social stability along with a friendly regulatory environment to make the country attractive for foreign investors.

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