

## **Trend Analysis Of Foreign Direct Investment Inflow In India 2000 To 2018**

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### **Abstract:**

Foreign Direct Investment performs a significant role in the growth of any nation. The significance of this sector is extra essential for the betterment of developed and emergent nations. In addition, after the problems of independence linked to foreign capital, the operation of multinationals has attracted the attention of decision-makers. Given the national interest, policymakers have formed the FDI policy that targets foreign investment as a means of forming advanced technologies and mobilizing foreign exchange resources. India's first PM said that FDI is "necessary" supplement national capital and also to provide technical, scientific, industrial knowledge and capital goods. According to the political and economic regime, the FDI policy has also evolved. The industrial policy of 1965 permitted the multinationals to embark on a technological cooperation in India. Due to large outflows of foreign exchange reserves in the form of dividend transmittals, royalties, earnings, etc., the administration must accept a strict foreign policy in the seventies. The research work is empirical in nature. The paper is based on the derived data. The key factor emphasized under the study is the trends and pattern of FDI.

**Keywords:** Indian economy, FDI, Indian inflows, Portfolio investment.

### **Introduction:**

Foreign Direct Investment means a process of making a physical venture in another country. It is a protracted collaboration by country X into country Y. Foreign direct investment is an venture in another nation asset into local structures, equipment, and institutions. FDI can come in any way either automatic or government in any nation. In the automatic route, FDI needs no endorsement of the government. Foreign investment promotion board is the agency which is responsible to supervise this route. FDI strengthens domestic capital, productivity, and employment which help in economic growth. FDI provides chances to the native country to boost their growth of the

economy and open new opportunities to native nations to elevate their earning by increasing employment of their idle resources. **As described by IMF, “FDI is defined as** Investment that is made to acquire lasting interest in an enterprise operating in an economy other than that of the investor. The investor’s purpose is being to have an effective voice in the management of enterprises.”

### **Review of literature:**

- **Rajaganesh (2017)** discussed the Make in India promotion; Government of India selected 25 sectors where the chance of FDI is highest. The paper concluded that FDI in India has a significant role in the commercial growth and in several sectors it results in creating work opportunities and improvement of manufacturing market sectors. It is very clear that FDI is the major helping tool for Make in India however, Indians should be more aware in doing FDI so that our GDP will also improve.
- **Singh and Awasthi (2016)** in the paper named “Impact of foreign direct investment on higher education” have examined the possibilities of bringing quality, excellence and more opportunities in higher education through the FDI route. The study focused on the advantages of FDI in higher education with reference to India especially and evaluated the advantages and disadvantages of going in for FDI. The study analyzed that government has taken few steps further for the free entry to global universities into India without any restriction. They concluded that FDI in India seriously needs funds for the development of the education sector. Further, the paper recommends a regulatory body frame for some strong policies otherwise India might face some bad consequences.
- **Gupta and Garg (2015)** examined the time lag required for FDI to make its utmost impact on financial expansion in India. The paper based on derivative data from period 2000 to 2014 and the data collected from the handbook of statistics on Indian economy published annually by Reserve Bank of India. There are investigated the relationship between FDI inflow and gross domestic product. Correlation and lag regression model has been used. There is a need for the regular rise in FDI to bring the continuous increase

in economic growth. To attract FDI, the government in India needs to maintain the economic stability along with curbing corruption.

**Objectives:**

1. To examine the trends and patterns of FDI at India level
2. To examine the sector-wise inflows of FDI in India

**Research methodology:**

The study based on the secondary data. Thus, it is both quantitative and logical study of FDI in India. The data has been taken from different sources i.e. World investment report, Secretariat for Industrial Approvals (SIA) Newsletter, United states conference on trade and development and the websites of World Bank etc. It's a time series data collected for a period of eighteen years i.e. from 2000 to 2018.

**Entry routes for FDI in India:**

In the FDI Plan, funds can be made in stakes – market mandatorily and it may be alterability debentures, debentures. It may be mandatorily and fully convertible, priority to Indian companies while giving shares by non-residents through two routes;

- **Automatic Route:** in this context, FDI allocation in the service sector to the limitations is allowed under the automatic route, are not required any previous sanction by the RBI or government within thirty days of issues of shares to overseas investors to that office.
- **Government Route:** It is the main conditions, that the Government routes have approved the way for the foreign investors or the Indian companies should take prior approval from FIPB, Government of India, and Department of Economic Affairs.

**TRENDS AND PATTERNS OF FDI AT INDIA LEVEL:**

The financial reforms of Government in 1991 make it one of the largest players in the global economy, making it the fourth major and second bestdeveloping economy in the globe. “India is also the 6th largest economy in industrial production and the third largest pool of scientific and technical labor. Continued economic liberalization since 1991 and its general management has remained the same over the years”, regardless of where the economy existed for a system based on the market, of closed economy, described by significant guidance, protectionism. Ownership of Public has led to widespread corruption and low growth from the 1950s till the 1990s. “Until 1991, Indian companies invested very little abroad. Although the Indian government’s policy had been of investment encouragement in foreign by Indian companies, subject to certain conditions. Several factors such as national economic policy and domestic economic situation were two deterrents of foreign investment by Indian companies.”

“India’s GDP crossed one trillion \$ mark in 2007 for the first time in history”. As a result of policy measures of economic reforms, 1991 FDI has increased manifold which is an essential tool to attain the sustained economic development. The exports, investments, and growth rates of India also increased in the present time and India’s all sectors have been growing vastly. It showed that after internationalization, liberalization, and globalization the overall development of India has been increased rapidly.

### TABLE

#### INDIA’S SHARE IN WORLD FDI INFLOW(US \$ BILLION)

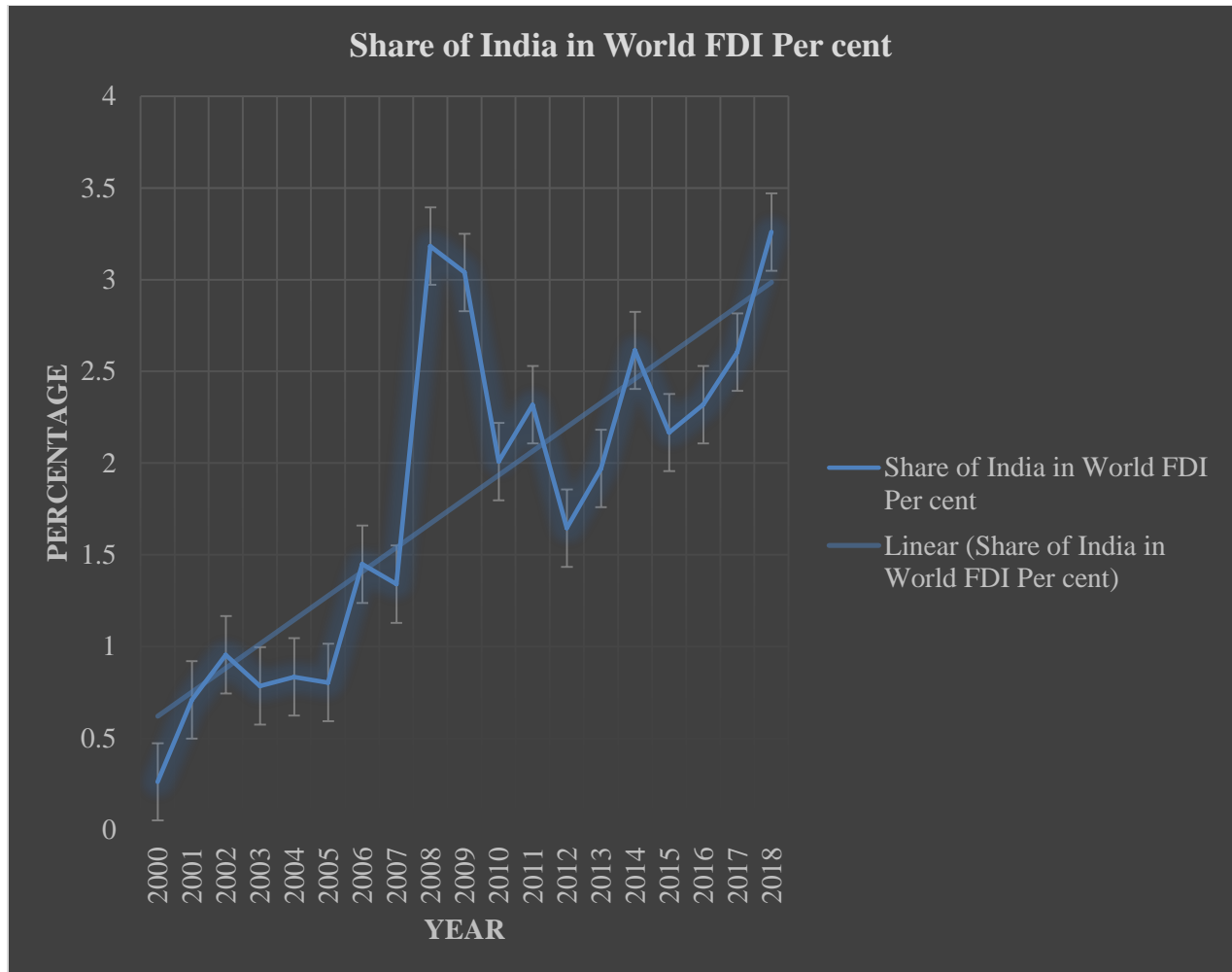
Years	World FDI	INDIA	Share of India in World FDI Per cent
2000	1356.62	3.558	0.26227
2001	772.72	5.478	0.70892
2002	589.86	5.63	0.95446
2003	550.55	4.321	0.78485
2004	692.33	5.778	0.83457
2005	948.57	7.622	0.80353
2006	1403.26	20.328	1.44863

2007	1891.45	25.35	1.34024
2008	1479.75	47.102	3.18311
2009	1172.24	35.634	3.03982
2010	1365.11	27.417	2.00841
2011	1561.36	36.19	2.31785
2012	1470.24	24.196	1.64572
2013	1431.17	28.199	1.97035
2014	1357.25	35.482	2.61426
2015	2033.85	44.064	2.16653
2016	1918.38	44.481	2.31868
2017	1497.38	39.004	2.60482
2018	1297.16	42.286	3.25989

*Source: Various issues of WIR, UNCTAD*

Table shows share of India in world FDI inflows. India's share in world FDI inflow is screening the growing trend. It has risen from 0.27 per cent to 3.25 per cent for the duration of the period 2000 to 2018. The causes of the rise in FDI inflow towards India is liberalized policies for the warm welcome of foreign direct investment, tax incentive, establishment of special economic zone, open up his economy with the rest of the world, high GDP growth rate and lucrative market for investment. India's valuable and diversified resources, good market condition and highly skilled human resources and made India one of the eye-catching destinations for foreign direct investment.

## GRAPH



Source: Various issues of WIR, UNCTAD

Graph shows that India’s share in Global FDI influx from 2000 to 2018. The graph showed that in the year 2000 to 2005 the share of India in global FDI increased minor change 0.27 to 0.81 per cent. In the year 2018 the share of India’s in World FDI inflow from 3.25 per cent.

**TABLE**  
**SECTOR-WISE INFLOWS OF FDI IN INDIA FROM 2000 TO 2019**  
**(FINANCIAL YEARS)**

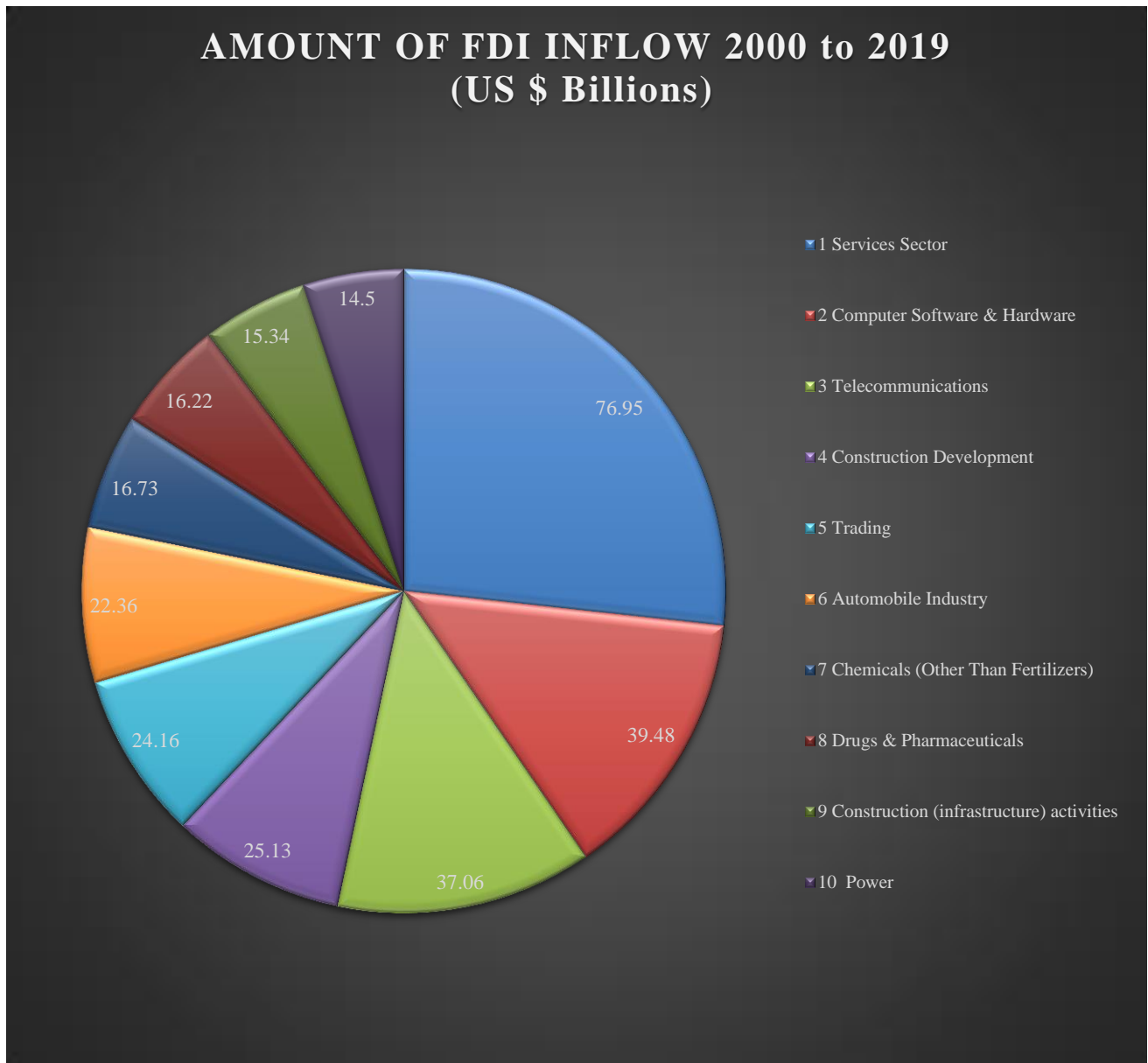
Rank	Sector	Amount of FDI inflow (US \$ Billions)	Percentage to total in (US \$)
1	Services Sector	76.95	17.63
2	Computer Software & Hardware	39.48	9.05

3	Telecommunications	37.06	8.49
4	Construction Development	25.13	5.76
5	Trading	24.16	5.54
6	Automobile Industry	22.36	5.12
7	Chemicals (Other Than Fertilizers)	16.73	3.83
8	Drugs & Pharmaceuticals	16.22	3.71
9	Construction (infrastructure) activities	15.34	3.51
10	Power	14.50	3.32

*Source: Secretariat for Industrial Approval Newsletter, March 2019*

Table depicts the sector-wise inflows of FDI in India from 2000 to 2019. The topmost 10 sectors which are attracting more FDI inflow are “service sector, computer software and hardware, telecommunication, construction development, trading, automobile industry, chemicals (other than fertilizers), computer software and hardware drug and pharmaceuticals, Construction (infrastructure) activities and power”. The FDI inflows are highest in the service sector which is 17.63 per cent. It is 9.05 per cent in computer software and hardware and 5.54 per cent in trading business. The least FDI inflow is in power which have been 3.32 per cent. The FDI inflow in India has raised because of the service led growth of Indian economy, trade openness and tax incentives etc.

## CHART



Source: Secretariat for Industrial Approval Newsletter, March 2019

Chart depicts the sector-wise influxes of FDI in India from 2000 to 2019. The sector-wise study with the help of this chart shows that largest FDI has taken place in the tertiary sector. The chart shows that the service sector is at the top with 76.95 per cent of total FDI inflows. After service sector computer Software & hardware with 39.48per cent followed by Telecommunications, Construction Development and trading with 37.06 per cent, 25.13 per cent and 24.16 per cent. The telecom industry is one of the rapidly rising industries in India.

**Conclusion:**

- The share of India in world FDI has improved after the liberalization of the economy in 1991 but the rate of growth of FDI is slower than the other developing countries like China and Singapore.
- World Investment Report 2014 says that India is the 4th most favoured Investment destination, and in 2014 flow of FDI in India improved by 26 per cent. As India's government eased FDI restrictions, more investment is expected to flow into the country.
- According to World Investment Report, India is the second most profitable place for FDI after China.
- It is found that liberal and transport policy compiled by India attracts the countries for investing FDI in India.
- In the procedure of nominal GDP India is the 6<sup>th</sup> biggest economy of the worldwide and in form of PPP, it is 3<sup>rd</sup> largest.
- India has been shown to receive an FDI inflow of 42.286 US billion in the period 2001 to 2018.
- In the interests of the generous FDI flow in India, India has preserved Double Tax Avoidance Agreement with almost 70 per cent of the world.
- Analysis of the last three decades of the trend of influx of foreign direct investment in India shows that the tide of the low point in particular, there are the rapid growth of investment flows from 2006 onwards.
- It is shown that India opens many new sectors that are FDI, making foreign direct investment capital sectors already opened and procedural simplification.
- FDI inflows are 40 per cent in high priority areas like computer hardware, services, telecommunication, and software and housing and real state.
- The services sector in India has been the most dynamic sector in terms of contributions to national and state revenues, trade flows, direct investment from foreign and employment. The services sector in India covers a wide range of activities such as commerce, "hotels and restaurants, transport, storage and communications, finance, insurance, real estate, commercial services, services community, social and personal and construction".

- The “government has put in place an investor-friendly FDI policy, in which foreign direct investment (FDI) up to 100 per cent is allowed on the automated route in most sectors activities. Recently, the government has introduced policy reforms in several sectors, including defense, construction development, insurance, pensions, other financial services, asset reconstruction companies, broadcasting, civil aviation, pharmaceuticals” and commerce, and so on.
- The services sector earned the greatest percentage of the influx of foreign direct investment, among all sectors. The total premium income of FDI in the services sector is 76.95 per cent in the years 2000 to 2018.
- Telecommunication is one of the bestmounting industries in India.

**Suggestions:**

- It is suggested to the different governments to make similar policies for FDI to attain the political stability to boost the confidence level of the foreign investors.
- There is a need to develop a clear and regulatory framework for FDI and try to simplify the procedures for the foreign investors.
- There is a need for a major shift in export strategies based on proactive measures to sustain the high level of export growth.
- National policy reforms in the power sector, urban set-up and real estate and de-control and de-licensing should be advanced for attracting more FDI.
- The success of Indian exporters in the global market area depends only on their competitiveness in the world market.

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