

Performance of Foreign Direct Investment Inflows in Indian Economy: An Overview



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Abstract

This paper attempted to make an analysis of FDI in India. FDI in India has enabled to achieve a certain degree of financial stability; growth and development to sustain and compete in the global economy. Especially in the recent years the FDI in India has been following a positive growth rate. The economic reforms had a significant impact on the inflow of FDI into India during the past two decades. In the pre-liberalization period, India had followed an extremely cautious and selective approach while formulating FDI policy. The FDI policy is reviewed at regular intervals to make India as a choice of FDI destination. FDI policy has evolved over a period of time and significant modifications have been affected in the FDI policy of India to ensure that India becomes an attractive investment option for FDI inflows. Since 1991 the government has focused on liberalization of policies to welcome foreign direct investments. This research paper has the following sections: After the introduction, a brief literature review has been presented. This is followed by the research methodology and data analysis. An empirical analysis of FDI inflows into Indian economy is presented for the period April 2000 –March 2017. The results of the analysis indicate that there had been a steady increase in the FDI inflow into India during the period considered for research. The last section presents the concluding remarks regarding the status of FDI inflow into India and the future prospects of FDI inflow into India.

Keywords: FDI, GDP, Indian Economy. Liberalization, Globalization Policy Reform, Growth & Development.

Introduction

One of the economic aspects of globalization is the fact that increasing investments in the form of foreign direct investments. In the recent times due to the global recession most of the countries have not been able to pull investments. India has been able to attract better FDI's than the developed countries even during the crisis period also. Especially in the recent years the FDI in India has been following a positive growth rate. The economic growth has not been achieved. In 1991, the then congress government had implemented liberalization policies to restructure the Indian economy. This research study highlights the FDI inflow into India for the period April 2000 – March 2017. This research paper has the following sections: After the introduction, a brief literature review has been presented. This is followed by the research methodology and data analysis. The last section presents the concluding remarks regarding the status of FDI inflow into India and the future prospects of FDI inflow into India. In light of the globalization process, India had initiated economic reforms in 1991 to facilitate inflow of FDI into India. This resulted into a regular FDI inflow into India for the past two decades. In the Indian context, The Department of Industrial Policy & Promotion (DIPP) serves as the nodal centre for formulation of the policy of the Government of India regarding Foreign Direct Investment (FDI). The FDI policy is reviewed at regular intervals to make India as a choice of FDI destination. FDI policy has evolved over a period of time and significant modifications have been affected in the FDI policy of India to ensure that India becomes an attractive investment option for FDI inflows.

Foreign Direct Investment (FDI) is an investment directly into production and services in a country by a company located in another country, either by buying a company or by expanding business in that country.

Objectives of the Study

1. To make projections of FDI in India.
2. To analysis the various aspects of FDI.
3. To understand FDI policy Reform in India.
4. To study inflows-outflows of FDI.
5. To study impact of FDI on economic indicators in India

Methodology

The study is based on the extensive survey of secondary data which is collected from published research papers, websites, reference books, journals and reports etc. The primary purpose of this research study is to make an attempt to analyses the trends in inflow of FDI into India for the period April 2000 – March 2017.

Review of Literature

Andersen P.S and Hainaut P. (2004) in their paper "Foreign Direct Investment and Employment in the Industrial Countries" point out that while looking for evidence regarding a possible relationship between foreign direct investment and employment, in particular between outflows and employment in the source countries in response to outflows. They also find that high labour costs encourage outflows and discourage inflows and that such effect can be reinforced by exchange rate movements. According to this study the principle determinants of FDI flows are prior trade patterns, John Andreas (2004) in his work "The Effects of FDI Inflows on Host Country Economic Growth" discusses the potential of FDI inflows to affect host country economic growth. This paper has assumed that the direction of causality goes from inflow of FDI to host country economic growth. However, economic growth could itself cause an increase in FDI inflows. Economic growth increases the size of the host country market and strengthens the incentives for market seeking FDI. This could result in a situation where FDI and economic growth are mutually supporting. However, for the ease of most of the developing economies growth is unlikely to result in market – seeking FDI due to the low income levels. Therefore, causality is primarily expected to run from FDI inflows to economic growth for these economies. Klaus E Meyer (2005) in his paper "Foreign Direct investment in Emerging Economies" focuses on the impact of FDI on host economies and on policy and managerial implications arising from this (potential) impact. The study finds out that as emerging economies integrate into the global economies international trade and investment will continue to accelerate. MNEs will continue to act as pivotal interface between domestic and international markets and their relative importance may even increase further. Empirical analysis of foreign direct investment (FDI) inflows into Indian economy Azhar and Marimuthu (2012) analyzed the flow of FDI into India for the period 2000-2010. The authors employed a descriptive research methodology using the data from the Department of Industrial Policy and Promotion (DIPP). The authors presented an analysis of year-wise inflow of FDI into India. Additionally, sector-wise FDI inflow into India was also analysed. The results indicated that electrical equipment industry attracted the highest FDI inflow with nearly

15.6 per cent of total FDI inflow into India. Balasubramanyam and Mahambare (2002) investigated FDI inflow into India after 1991. The analysis of this research paper aims to fill this gap by focusing that on the inflow of FDI trends into India during April 2000 –March 2017. The authors observed that FDI is a significant avenue for technology transfer into a developing economy like India. The study included an analysis of FDI inflow into India in terms of foreign collaborations and sectoral-contribution including a state-wise analysis of FDI inflow into India. It can be noted that many of the prior research studies failed to capture the latest trends of FDI inflows into India though some studies examined the FDI trends in India during pre and post-economic reforms period in India.

FDI Policy In India

In the pre-liberalization period, India had followed an extremely cautious and selective approach while formulating FDI policy. The historical background of FDI in India can be traced back with the establishment of East India Company of Britain. British capital came to India during the colonial era. Before independence, major FDI came from the British companies. After Second World War Japanese companies entered in the Indian Market. After independence, issues relating to foreign capital, MNCs, gained attention of policy makers. A series of measures that were directed towards liberalizing foreign investment included the following-

1. Introduction of dual route of approval of FDI: RBI's automatic route and Governments approval route through Foreign Investment Promotion Board (FIPB) and Secretariat for Industrial Assistance (SIA)
2. Automatic permission for technology agreements in high priority industries and liberalization of technology imports
3. Permission to NRIs and Overseas Corporate Bodies to invest up to 100% in high priorities sectors
4. Hike in the foreign equity holding limits to 51% and liberalization of the use of foreign brands name
5. Signing of the convention of multilateral investment guarantee agency for protection of foreign investments these efforts were boosted by the enactment of Foreign Exchange Management Act. 1999 that replaced the Foreign Exchange Regulation Act.1973.This along with the sequential financial sector reforms paved way for greater capital account liberalization in India. GOI announced significant measures like 100% FDI in business to business (B2B), airports, e-commerce, power sector, oil refining. Manufacturing activities in all SEZs can have 100% Automatic route except for arms, explosives, allied defense equipments, narcotics etc.

Need for Policy Reform

Many may argue that in our desperateness to attract foreign capital, we have sacrificed some of the vital objectives that we could have achieved. For instance, the opportunity to use FDI as a tool for export promotion may appear to have been virtually

sacrificed. Similarly, the objectives that could have been served through indigenization programme may have been sacrificed to a great extent. Export development, access to foreign technology, transfer of skills to the locals, development of supporting local enterprises, etc. are some of the benefits that could be reasonably expected from foreign investment. Seemingly, the new policy that has been considerably shaped by the economic exigencies of the late 80s and early 90s has compromised on many vital objectives.

Analysis and Discussion

Inflow of FDI into India has witnessed an increasing trend after initiation of Indian economic reforms in 1991. Table 1 provides a summary of inflow of FDI into India for the period April 2000 – March 2017.

Table 1: FDI Inflows into India during April 2000 –March 2017

Financial Year	US\$ (million)	Growth %
2000-2001	4,029	
2001-2002	6,130	52.0
2002-2003	5,035	-18.0
2003-2004	4,322	-14.0
2004-2005	6,051	40.0
2005-2006	8,961	48.0
2006-2007	22,826	155.0
2007-2008	34,843	53.0
2008-2009	41,873	20.0
2009-2010	37,745	-10.0
2010-2011	34,847	-8.0
2011-2012	46,556	34.0
2012-2013	34,298	-26.0
2013-2014	36,046	5.0
2014-2015	45,148	25.0
2015-2016	55,559	23.1
2016-17	60,082	8.0
Total	4,84,351	17.2 (CAGR)

Source: Department of Industrial Policy & Promotion (http://http://dipp.nic.in/sites/default/files/FDI_FactSheet_January_March2017)

It can be noted that the FDI inflow into India has increased from US\$ 4.03 billion to US\$ 60.08 billion during the period considered for the research registering a compounded annual growth rate (CAGR) of nearly 17.2 per cent. This indicates that the economic reforms in India have enhanced the FDI inflows into India during the period of research. It can also be inferred from Table 1 that India was able to attract nearly US\$ 484.3 billion since April, 2000. It can further be inferred from Table 1 that FDI inflow into India has witnessed steep increase from 2005 onwards after India completed the transitory 10 year period after it became a signatory to WTO agreement effective from 1st January, 1995. An in-depth analysis concerning the source of inflow of FDI into India

provides interesting observations. It can be noted from Table 2 that India was able to attract FDI from various countries in the world. Mauritius emerged as the country contributing the largest FDI inflow into India. This can be attributed to the tax benefits and the financial system existing in that country which favoured the flow of FDI into India. It is followed by Singapore, Japan, United Kingdom and Netherlands. Interestingly, the top 10 countries that contribute FDI inflows into India account for nearly 87 per cent of total FDI into India. It is expected that similar trends will continue in the near future owing the continuation of economic reforms in India in the near future.

Table 2: FDI Inflows into India –Top 10 Countries

S. No.	Country	Amount of FDI		Growth %
		(Rs. crores)	(US\$ million)	
1	Mauritius	585,950.38	111,637.56	33.6
2	Singapore	315,042.49	54,590.41	16.4
3	Japan	142,259.65	25,675.42	7.73
4	United Kingdom	125,554.59	24,591.12	7.41
5	Netherlands	117,166.54	20,681.79	6.23
6	USA	110,531.54	20,322.66	6.12
7	Germany	52,044.62	9,698.41	2.92
8	Cyprus	46,730.58	9,156.40	2.76
9	France	30,637.22	5,725.48	1.72
10	United Arab Emirates	26,186.87	4,704.59	1.42
	Total Top 10 Countries	1,552,104.48	286,783.84	
	% of Total FDI		86.8	

Source: Department of Industrial Policy & Promotion

(http://dipp.nic.in/English/Publications/FDI_Statistic/2016/FDI_FactSheet_JanuaryFebruaryMarch2016.pdf)

It is also pertinent to note the trends of FDI inflows into India for various industry sectors in India. Table 3 presents a summary of the top ten sectors that attracted the highest FDI inflows in India during the period of research. It can be observed that Services industry attracted the highest FDI inflow followed by computer software & hardware, construction development, telecommunications and automobile industries. This inflow was facilitated by the enhanced income levels of Indians who have benefited economically due to the globalization process. It can further be observed from Table 3 that the top 10 sectors contribute to nearly 45.7 per cent of all the sectors in the Indian economy indicating the attractiveness of these industries. All the sectors in the Indian economy indicating the attractiveness of these industries.

Table 3: FDI Inflow into India –Top 10 Sectors

S. No.	Sector	Amount of FDI Inflows		% of Total Inflows
		(April 2000 - March 2016)		
		(Rs. crores)	(US\$ million)	
1	Services	316,567.77	59,476.49	17.92
2	Computer Software & Hardware	136,789.08	24,669.49	7.43
3	Construction Development	114,638.90	24,293.08	7.32
4	Telecommunications	130,163.87	23,946.04	7.21
5	Automobile Industry	92,218.42	16,673.91	5.02
6	Drugs & Pharmaceuticals	75,820.05	14,706.89	4.43
7	Trading	84,557.43	14,210.86	4.28
8	Chemicals (excluding fertilizers)	68,951.96	13,293.09	4.00
9	Power	60,086.74	11,589.13	3.49
10	Metallurgical Industries	53,074.07	10,330.53	3.11
	Total Top 10 Sectors			45.7

Source: Department of Industrial Policy & Promotion

(http://dipp.nic.in/English/Publications/FDI_Statistics/2016/FDI_FactSheet_JanuaryFebruaryMarch2016.pdf)

Conclusion

This paper focuses on theoretical aspects of FDI in India during the last ten years, determinants and need of FDI in Indian scenario. India has been one of the developing Countries and has managed to show a positive GDP growth even during the recession period. Indian economic reforms initiated in 1991 have revolutionized the growth of Indian economy. The economic reforms had a significant impact on the inflow of FDI into India during the past two decades. This study focused on the trends of FDI inflow into India for the period April 2000 –March 2017. The analysis shows that FDI inflows into India have exhibited a robust growth since 2000. It is observed that global economic meltdowns did not have a negative impact on the inflow of FDI into India. This can be attributed to the attractiveness of Indian economy for global organizations for their growth and profitability. It is expected that Indian FDI inflows will witness a steady and continuous growth.

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