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A Study on the Changing Recent Trends in the Flow of Foreign Direct Investment in India

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Abstract

Foreign Direct Investment (FDI) is considered as an engine of economic growth. This paper analyses the sector-wise and country-wise inflows of FDI during the period 2012-2017. This study concludes that, the sectors that attracted higher inflows were Communication services as per the CAGR and as per the share it is manufacture sector. The British Virgin Islands was at highest FDI inflows as per the CAGR and as per the share it is from Mauritius.
Keywords: *FDI, GDP, CAGR, NIP.*

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1. INTRODUCTION

Foreign Direct Investment (FDI) in India is the major monetary source for economic development in India. Foreign companies invest directly in fast growing private Indian businesses to take benefits of cheaper wages and changing business environment of India. India allows FDI in most sectors through the Automatic route, but in certain segments that are considered sensitive for the economy and security, the proposals have to be first cleared by Foreign Investment Promotion Board (FIPB).

Apart from being a critical driver of economic growth, foreign direct investment (FDI) is a major source of non-debt financial resource for the economic development of India. Foreign companies invest in India to take advantage of relatively lower wages, special investment privileges such as tax exemptions, etc. For a country where foreign investments are being made, it also means of achieving technical know-how and generating employment.

The Indian government's favourable policy regime and robust business environment have ensured that foreign capital keeps flowing into the country. The government has taken many initiatives in recent years such as relaxing FDI norms across sectors such as defence, PSU oil refineries, telecom, power exchanges, and stock exchanges, among others.

2. NEED OF THE STUDY

The flow of FDI in Indian service sector is boosting the growth of Indian economy, this sector contributing the large share in the growing GDP of India. This sector attracting a significant portion of total FDI in Indian economy. This contribution of FDI is stimulating the economic growth or not, this knowledge thrust of research scholar creates the interest in conducting this study.

3. REVIEW OF LITERATURE

A number of studies have been examined to study the significance of the FDI on growth of the economy. **Alfaro Laura (2003)** using cross country data for the period 1991-1999 suggested that total FDI exerts an ambiguous effect on growth. FDI in primary sector have a negative effect on growth whereas investment in manufacturing has a positive effect on growth. The effect of Service sector FDI is ambiguous. **Williams (2009)** suggested that for the improvement in the standard of living of the people, the promotion of FDI could be very useful and with the increase FDI inflows in the country, the per capita income of the household also increases. **Duan (2010)** compared the overall trends and industrial patterns of inward FDI in the BRICS and explained their determinants. In Brazil, Russia and India, the tertiary sector received the most inward FDI and primary sector received the least FDI. Manufacturing sector was in the middle in terms of inward FDI. **Khazri, Djelassi (2011)** analysed empirically the relation between FDI and economic growth in MENA(Middle East and North Africa) countries. He found that there was negative relation between FDI and economic growth and a positive relation between FDI and GDP. Babar and Khandare (2012) focused on changing structure, trends and direction of India's FDI during globalisation period. The study was done through sectoral analysis of top sectors FDI participation in the economy, as well as through study of country wise flow of foreign inflow in India till 2010. **Singh et al. (2012)** suggested that many countries provide various incentives for attracting the foreign direct investment. The need of FDI depends on saving and investment rate in any country and we should provide the better environment for attracting the foreign investment through direct as well as indirect methods. **Renuka et al. (2013)** suggested that India had to open up the retail trade sector to foreign investors. India is allowing only those foreign retail who first invest in back end supply chain. **Kumari (2013)** with the help of correlation, found that the flow of equity in any previous year will determine the flow in the next year and the FDI inflow is divided into three major parts as per international standards of WTO: equity, reinvestment earnings and other capital. **Singh, J. (2010)** analyzed the emerging trends and patterns of FDI inflows into India in response to various policy measures announced by the Government of India since 1990. The empirical analysis suggested that the FDI inflows have shown an increasing trend during the post-reform period. Furthermore, country-wise comparison of FDI inflow also indicated that FDI inflow into India has increased considerably in comparison to other developing economies in the recent years. Thus, the study indicated that the FDI inflows into India responded positively to the liberalization measures introduced in the early 1990s. **Singh, Shikha (2009)**, studied various factors which played a significant role in attracting FDI into a particular state and found that foreign direct investment (FDI) policies played a major role in the economic growth of developing countries around the world and the FDI in India, after the economic reforms, have affected the growth of Indian states

4. OBJECTIVES OF THE STUDY

1. To study FDI inflow trends during the study period
2. To study the trend flow of foreign direct investment country wise and industry wise from 2012 to 2017

5. RESEARCH METHODOLOGY

Data used

This study is based on secondary data. This database is constructed by pooling information and data from various sources. It includes economic survey of India, Reserve Bank of India, Census, different parliamentary questions, and Policy Papers amongst many other, Online data base of Indian Economy, journals, articles, newspapers, etc.

Tools

To evaluate the flow of FDI at both the levels i.e. country-wise and sector-wise, the tools that are used to analyze the data are Compound Annual Growth Rate (CAGR) and percentages.

6. DATA ANALYSIS

Table 1 : FDI inflow During The Study Period

Financial Year (Apr-Mar)	*Amount of FDI Equity Inflows*		*%age growth over the*
	In Rupees Crore	*In US$ million*	*Previous year*
2000-01	10,733	2,463	-
2001-02	18,654	4,065	(+) 65 %
2002-03	12,871	2,705	(-) 33 %
2003-04	10,064	2,188	(-) 19 %
2004-05	14,653	3,219	(+) 47 %

2005-06	24,584	5,540	(+) 72 %
2006-07	56,390	12,492	(+)125 %
2007-08	98,642	24,575	(+) 97 %
2008-09	142,829	31,396	(+) 28 %
2009-10	123,120	25,834	(-) 18 %
2010-11	97,320	21,383	(-) 17 %
2011-12	165,146	35,121	(+) 64 %
2012-13	121,907	22,423	(-) 36 %
2013-14	147,518	24,299	(+) 8%
2014-15	189,107	30,931	(+) 27%
2015-16	262,322	40,001	(+) 29%
2016-17	3,24,576	43,478	(+) 8.69%
CUMULATIVE TOTAL (from April 2000 to March 2017)	18,20,436	3,32,113	-

Source: Reserve Bank of India, Annual Reports

Above table reveals that, FDI inflow during the period 2000-2016 it has been increased from Rs. 10,733 crores to Rs. 262,322 crores and from US $ 2,463 Million to US $ 40,001 Million. During 2000-2001 to 2015-2016 The inflow of FDI has been increased by 53.66 times.

Table 2: FDI inflows from different countries.

Foreign Direct Investment Flows to India During the Study Period 2012-2017: Country-Wise						
	2012-13	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**CAGR(%)**
Mauritius	8,059	3,695	5,878	7,452	13,383	13.51
Singapore	1,605	4,415	5,137	12,479	6,529	42.07
Japan	1,340	1,795	2,019	1,818	4,237	33.34
Netherlands	1,700	1,157	2,154	2,330	3,234	17.44
U.S.A.	478	617	1,981	4,124	2,138	45.42
United Kingdom	1,022	111	1,891	842	1,301	6.22
Germany	467	650	942	927	845	15.98
U.A.E.	173	239	327	961	645	38.9
Switzerland	268	356	292	195	502	16.98
France	547	229	347	392	487	-2.8
South Korea	224	189	138	241	466	20.09
Italy	63	185	167	279	364	55.03
Cyprus	415	546	737	488	282	-9.207
Spain	348	181	401	141	213	-11.55
British Virgin Islands	3	0	30	203	212	189.9
China	148	121	505	461	198	7.54
Belgium	33	66	47	57	172	51.09
Others	1,394	1,501	1,754	2,677	1,109	-5.58

Source: Reserve Bank of India, Annual Reports

The above table reveals the FDI inflows from different countries. To identify and examine the growth of FDI inflow Compound Annual Growth Rate has been estimated for the period of 5 years i.e. from 2013- 2017. The above table shows that the annual compound growth rate of Total Foreign Investment in different countries have not been equally successful in attracting FDI. There is considerable variation in the dataset. The Compound Annual Growth rate of FDI inflow ranges from minimum of -11.55% to maximum of 189.9%. The highest FDI annual compound growth was 189.9% witnessed from British Virgin Islands country and the lowest FDI annual compound growth was -11.55% witnessed from Spain country. According to above table analysis it reveals that ten countries showed positive CAGR in terms of FDI flow, and they are Singapore, United Kingdom, Japan, Netherlands, Germany, UAE, Switzerland, South Korea and Mauritius. At the same time, countries like, France, Spain, U.S.A., Cyprus, SAR and Others have witnessed with negative CAGR.

Table 3: Foreign Direct Investment Flows to India during the Study Period 2012-2017: Sector -Wise

	2012-13	2013-14	2014-15	2015-16	2016-17	CAGR(%)
Manufacturing	6528	6381	9613	8439	11972	16.37
Communication Services	92	1256	1075	2638	5876	182.69
Financial Services	2760	1026	3075	3547	3732	7.83
Retail & Wholesale Trade	551	1139	2551	3998	2771	49.75
Business Services	643	521	680	3031	2684	42.93
Computer Services	247	934	2154	4319	1937	67.34
Miscellaneous Services	552	941	586	1022	1816	34.67
Electricity and other Energy Generation, Distribution & Transmission	1653	1284	1284	1364	1722	1.02
Construction	1319	1276	1640	4141	1564	4.35
Transport	213	311	482	1363	891	43.01
Restaurants and Hotels	3129	361	686	889	430	-39.11
Education, Research & Development	150	107	131	394	205	8.12
Mining	69	24	129	596	141	19.56
Real Estate Activities	197	201	202	112	105	-14.55
Trading	140	0.00	228	0.00	0.00	-100.00
Others	43	292	232	215	470	8.18

Source: Reserve Bank of India, Annual Reports

In India there are many sectors attracting FDI inflow. India is welcoming sector-wise FDI as a part of its reform policies. Among them top sectors attracted high rate of FDI. Inflow in 2012-2017 is given in the above table and the data has been analysed by using Compound Annual Growth Rate. It is found that in the above table that, the Compound Annual Growth Rate of FDI ranged between -100% to 182.69%. It has been observed from the above analysis that the FDI trends have witnessed the negative Compound Annual Growth Rate in many of the sectors. The above results in Table clearly indicate that there was a highest FDI flow in communication services and lowest in cease of trading industry witnessed with a Compound Annual Growth Rate of 182. That is 69.33% and -100% respectively.

Government Initiatives

- The Department of Industrial Policy and Promotion (DIPP) approved nine Foreign Direct Investments (FDIs) worth Rs 5,000 crore (US$ 780.43 million), including Amazon India's Rs 3,500 crore (US$ 546.3 million) proposed investment.
- In September 2017, the Government of India asked the states to focus on strengthening single window clearance system for fast-tracking approval processes, in order to increase Japanese investments in India.
- The Ministry of Commerce and Industry, Government of India has eased the approval mechanism for foreign direct investment (FDI) proposals by doing away with the approval of Department of Revenue and mandating clearance of all proposals requiring approval within 10 weeks after the receipt of application.
- The Department of Economic Affairs, Government of India, closed three foreign direct investment (FDI) proposals leading to a total foreign investment worth Rs 24.56 crore (US$ 3.80 million) in October 2017.
- India and Japan have joined hands for infrastructure development in India's north-eastern states and are also setting up an India-Japan Coordination Forum for Development of North East to undertake strategic infrastructure projects in the northeast.
- The Government of India is in talks with stakeholders to further ease foreign direct investment (FDI) in defence under the automatic route to 51 per cent from the current 49 per cent, in order to give a boost to the Make in India initiative and to generate employment.
- The Central Board of Direct Taxes (CBDT) has exempted employee stock options (ESOPs), foreign direct investment (FDI) and court-approved transactions from the long-term capital gains (LTCG) tax, under the Finance Act, 2017.
- The Union Cabinet has approved raising of bonds worth Rs 2,360 crore (US$ 365.63 million) by the Indian Renewable Energy Development Agency (IREDA), which will be used in various renewable energy projects in FY 2017-18.
- The Government of India is likely to allow 100 per cent foreign direct investment (FDI) in cash and ATM management companies, since they are not required to comply with the Private Securities Agencies Regulations Act (PSARA).
- The Government of India plans to scrap the Foreign Investment Promotion Board (FIPB), which would enable the foreign investment proposals requiring government approval to be cleared by the ministries concerned, and thereby improve the ease of doing business in the country.

7. CONCLUSION OF THE STUDY

In the 1990's Foreign Direct Investment became the major source of private capital flows to developing economies. Due to the sudden disappearance of commercial bank lending in 1980's many developing nations started to offer various fiscal and financial incentives to foreign firms. It is widely believed that the extent to which FDI can affect output growth is not limited to the capital it supplies. Instead, FDI is thought of as composite bundle of capital stocks, technology know how, better managerial skills, labor training and other externalities that benefit output in several ways. Prior to early 1990's India used to have restrictive and regulated market for foreign capital. During this period, there were various obstacles (red tapes) and procedures for approval of foreign collaborations. However in early 90's, India faced extreme foreign exchange and balance of payments crisis which forced policy makers to opt for liberal policy regime. New Industrial Policy (NIP) in 1991 dissolved industrial licensing and market became less regulated. Due to the adoption of liberalization policies by India since 1990's the FDI inflows have increased consistently.

FDI in India is a key driver of economic growth and economic development of India. Most governments regard attracting it as a priority, particularly, in developing and transitional economies. It is given such emphasis not just because it boosts capital formation but because of its potential to enhance the quality of the capital stock. The reason for this is that in general multinationals are assumed to bring with them best practice or, as a minimum, better practice technology and management. FDI in India to various sectors can attain sustained economic growth and development through creation of jobs, expansion of existing manufacturing industries. In this piece of research, Using data country-wise and sector-wise for the period 2012-2017 we find that at country level, it is found that the British Virgin Islands was at highest FDI inflows as per the CAGR and as per the share it is from Mauritius. As per the study, the sectors that attracted higher inflows were Communication services as per the CAGR and as per the share it is manufacture sector. The other sectors in Indian economy the Foreign Direct Investors interest was, in fact has been quite poor.

India has become the most attractive emerging market for global partners (GP) investment for the coming 12 months, as per a recent market attractiveness survey conducted by Emerging Market Private Equity Association (EMPEA). The World Bank has stated that private investments in India is expected to grow by 8.8 per cent in FY 2018-19 to overtake private consumption growth of 7.4 per cent, and thereby drive the growth in India's gross domestic product (GDP) in FY 2018-19.

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