

A Study of Trends and Patterns of Foreign Direct Investment in India

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Abstract:-International Economic Integration plays an important role in the overall development of a country. Foreign Direct Investment is one major instrument of attracting International Economic Integration in any economy. It serves as a bridge in between investment and economic growth. Countries around the world developed and developing, are taking efforts to attract greater flows of FDI into their economies. India has followed an extremely cautious approach after economic reforms in 1991, India has liberalized its foreign policy and took several measures to attract FDI. India has a large potential market, pool of talented, educated and skilled workforce, has relatively low labour costs and liberal democratic political structure, the FDI inflows into India have remained low in comparison to other emerging markets. This paper seeks to know the trends and patterns of FDI in India, to analyze the state of FDI inward in India and identify the reasons that have made India less attractive preference as compared to other nations. The study is based on secondary data and the data has been collected from various reports and publications of Government of India, World Bank, World Economic forum etc.

Keywords: FDI, International Economic Integration, Emerging Markets, Economic Reforms.

I. INTRODUCTION

Foreign Direct Investment is a major component of a country's national financial accounts. Foreign direct investment (FDI) in India has played a major role to grow the Indian economy. It plays an important role in accelerating the pace of economic growth. FDI provides the much needed foreign exchange to help the bridge the balance of payment. FDI brings complementary assets such as technology, management and organizational competencies and there are spillover effects of these assets on the rest of the economy.

The objective to allow FDI is to harmonize and complement domestic investment, for achieving a higher level of economic growth and providing more and more opportunities for up gradation of technologies and to have an access to global managerial skills and practices. This is the reason because of that FDI has become a battle among emerging economies.

II. REVIEW OF LITERATURE

Many empirical studies have been undertaken to analyze the trends and patterns of Foreign Direct Investment (FDI) in India, few of them are as follows:-

Mucchielli and Soubaya (2000) find out the determinants of the volume of trade of the French Multinational Corporations. As per findings they suggested that inward FDI has a positive influence on Foreign trade, and this positive influence is stronger for exports compared with imports.

Chakraborty and Basu (2002) explore the relationship between inflows of FDI, real GDP, cost of labour and the proportion of import duties as well as tax revenue for India with the method that was introduced by Johansen (1990). They find two long-run equilibrium relationships one is among inflow of FDI, real GDP and the proportion of import duties in tax revenue another one is among real GDP and unit cost of labour.

Naga Raj (2003) discusses the trends in FDI in India in 1990s and compare them with China. The study focuses on the effects of the recent investments on the domestic economy. Based on the analytical discussion and comparative analysis, the study concludes a realistic foreign investment policy.

Salisu A.A. fees (2004) examined the determinants and impact of FDI on economic growth in developing countries. The study observed that inflation, debt burden, and exchange rate significantly affected FDI inflows. The contribution of FDI to economic growth in the was very low and it was perceived to be a significant factor influencing the level of economic growth.

Sapna Hooda (2011) analyzed the impact of FDI on economic growth of Indian economy for the period 1991-92 to 2008-09. She has used OLS method for this purpose. The result shows that FDI is an important and major factor influencing the level of growth in Indian economy. On the basis of the determinants of FDI inflows, trade GDP, Research and Development GDP, Financial position, exchange rate, Reserves GDP are the important determinants of FDI Inflow.

III. OBJECTIVES OF THE STUDY

- To analyse trends of FDI in India.
- To find out the status of FDI inflows into India.
- To identify sectors preferred for FDI in India.

IV. RESEARCH METHODOLOGY

The study is entirely dependent on secondary data. The study refers to the secondary data as it is the easiest way to collect data. Data have been collected from several sources like UNCTAD, RBI Report, EXIM Bank Report, from various articles as well as researches based on FDI. The study consists of data of various developing and developed countries in which we have analysed the data of last 10 years.

In our study we have gone through descriptive study and collected data from various types like data of FDI inflow of developing countries, data of FDI of various sectors over the

A. Country Wise

Ranks	Country	2014-15 (April – March)	2015-16 (April – March)	2016-17 (April, 15 – June, 16)	Cumulative Inflows (April '00 – June '16)	% age to total Inflows (in terms of US\$)
1.	MAURITIUS	29,360 (4,589)	55,172 (9,030)	13,236 (2,089)	438,892 (89,644)	35%
2.	SINGAPORE	36,625 (5,985)	41,350 (9,742)	23,230 (3,673)	190,477 (35,861)	14%
3.	U.K.	20,426 (3,215)	8,769 (1,447)	755 (119)	110,409 (22,329)	9%
4.	JAPAN	10,550 (1,718)	12,752 (2,084)	2,916 (459)	96,312 (18,811)	7%
5.	NETHERLAND	13,920 (2,270)	20,960 (3,436)	4,123 (652)	81,381 (15,323)	6%
6.	U.S.A	4,607 (806)	11,150 (1,824)	3,959 (627)	70,839 (14,378)	6%
7.	GERMANY	6,093 (1,038)	6,904 (1,125)	3,497 (554)	40,007 (8,198)	3%
8.	CYPRUS	3,401 (557)	3,634 (598)	608 (96)	39,971 (8,140)	3%
9.	FRANCE	842 (305)	3,881 (635)	877 (138)	23,495 (4,651)	2%
10.	SWITZERLAND	2,094 (341)	2,066 (337)	598 (94)	15,812 (3,139)	1%
TOTAL FDI INFLOWS FROM ALL COUNTRIES		147,518 (24,299)	189,107 (30,931)	60,298 (9,508)	1,293,836 (258,141)	-

Table 1: Share of top Investing Countries FDI Equity Inflows (Financial Years)

Includes inflows under FDI Schemes of RBI.

Note: (i) Cumulative country wise FDI equity inflows (from April, 2000 to June, 2015) are at Annex – A
(ii) %age worked out in US\$ terms & FDI inflows received through FIPS/SIA + RBI's Automatic Route + acquisition of existing shares only. Table shows that highest amount of

years, data of FDI inflow in which country and what are those determinants which has attracted the inflow. The nature of this study is based on descriptive research as we have explored the topic in various dimensions. In the study we have gone through the literature of previous years and policies of the government related to FDI inflow. Where as we have also conducted the detailed study of inflow and the major sectors and destination for the same. Apart of all these things we have explored the study in terms of the factors motivating Indian industries for FDI inflow and the impact of geographical areas on FDI inflow

V. DATA ANALYSIS

We have discussed about Total FDI inflow over the given period of time that is 2000-2016. Apart of this we have also described sector wise inflow in India. Here is the list of the sectors from where we got FDI inflow in India. In the analysis we have done analysis country wise and sector wise to know the pattern of FDI inflow.

into different sectors. On the basis of this table we can say that these are the countries who are investing in India.

We have also studied in terms of region wise or the countries who have invested in India. Following are the countries

- MAURITIUS
- SINGAPORE
- U.K.
- JAPAN

- NETHERLANDS
- U.S.A.
- GERMANY
- CYPRUS
- FRANCE
- SWITZERLAND

a). Sector Wise Analysis

Amount in Rs. Crores (US\$ in million)

Ranks	Sectors	2014-15 (April – March)	2015-16 (April – March)	2016-17 (April, 15 – June, 16)	Cumulative Inflows (April '00 – June '16)	% age to total Inflows (in terms of US\$)
1.	SERVICES SECTOR	13,294 (2,225)	19,963 (3,253)	4,036 (636)	209,578 (43,350)	17%
2.	CONSTRUCTION DEVELOPMENT TOWNSHIPS, BUILT – UP HOUSING, INFRASTRUCTURE	7,508 (1,126)	4,582 (758)	216 (34)	113,355 (24,098)	9%
3.	COMPUTER SOFTWARE & HARDWARE	6,896 (1,126)	13,564 (2,200)	16,245 (2,556)	89,181 (17,575)	7%
4.	TELECOMMUNICATIONS (radio, paging, cellular mobile, basic telephone services)	7,987 (1,307)	17,372 (2,895)	2,517 (395)	86,609 (17,453)	7%
5.	AUTOMOBILE INDUSTRY	9,027 (1,517)	15,794 (2,570)	6,914 (1,094)	70,906 (13,477)	5%
6.	DRUGS & PHARMACEUTICALS	7,191 (1,279)	9,211 (1,523)	1,370 (215)	66,652 (13,336)	5%
7.	CHEMICALS (OTHER THAN FERTILIZERS)	4,738 (878)	4,077 (669)	1,598 (251)	50,909 (10,588)	4%
8.	POWER	6,519 (1,066)	3,985 (657)	1,717 (271)	48,357 (9,828)	4%
9.	TRADING	8,191 (1,343)	16,962 (2,762)	5,679 (897)	49,479 (8,958)	4%
10.	METALLUGICAL INDUSTRIES	3,436 (568)	2,897 (472)	845 (133)	41,992 (8,680)	3%

Table 2: Sectors Attracting Highest FDI Equity Inflow

Note: (i) Services sector includes Financial, Banking, Insurance, Non – Financial/Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis

(ii) Cumulative sector-wise FDI equity inflows (from April, 2000 to June, 2016) are at Annex- 'B'.

(iii) FDI Sectoral data had been revalidated /reconciled in line with the RBI, which reflects minor changes in the FDI figures (increase/decrease) as compared to the earlier published sectoral data.

On the basis of study of above mentioned table following are the top 10 sectors where we got FDI

1. Services Sector
2. Construction Development: Townships, Housing Built up Infrastructure
3. Computer Software and Hardware
4. Telecommunications
5. Automobile Industry
6. Drugs and Pharmaceuticals
7. Chemicals
8. Power
9. Trading
10. Metallurgical Industries

This table shows the analysis on the basis of region. Particularly in which region we got FDI.

(from April, 2000 to June, 2016) Amount Rupees in crores (US\$ in million)

S. No.	RBI's – Regional Office	State Covered	2014-15 (April – March)	2015-16 (April – March)	2016-17 (April, 15 – June, 16)	Cumulative Inflows (April '00 – June '16)	%age to total Inflows (in terms of US\$)
1.	MUMBAI	MAHARASHTRA DADRA & NAGAR HAVELI, DAMAN & DIU	20,595 (3,420)	38,933 (6,631)	12,538 (1,979)	395,560 (75,097)	29
2.	NEW DELHI	DELHI, PART OF UP AND HARYANA	38,190 (6,242)	42,252 (6,875)	19,892 (3,128)	268,915 (52,539)	20
3.	CHENNAI	TAMIL NADU PONDICHERRY	12,595 (2,116)	23,361 (3,818)	5,828 (924)	94,595 (17,938)	7
4.	BANGALORE	KARNATAKA	11,422 (1,892)	21,255 (3,444)	8,447 (1,336)	90,569 (17,456)	7
5.	AHMEDABAD	GUJRAT	5,282 (860)	9,416 (1,531)	4,732 (745)	58,529 (11,786)	5
6.	HYDERABAD	ANDHRA PRADESH	4,024 (676)	8,326 (1,369)	2,681 (422)	51,921 (10,437)	4
7.	KOLKATA	WEST BENGAL, SIKKIM ANDAMAN & NICOBAR ISLANDS	2,659 (436)	1,464 (239)	689 (108)	15,316 (3,089)	1
8.	CHANDIGARH	CHANDIGARH, PUNJAB	562 (91)	234 (39)	91 (14)	6,452 (1,345)	1
9.	JAIPUR	RAJASTHAN	233 (38)	3,237 (541)	109 (71)	6,904 (1,281)	1
10.	BHOPAL	MADHYA PRADESH, CHATTISHGARH	708 (119)	601 (100)	9 (2)	6,105 (1,217)	1
11.	KOCHI	KERALA, LAKSHADWEEP	411 (70)	1,418 (230)	35 (6)	6,186 (1,216)	1
12.	PANJI	GOA	103 (17)	211 (35)	81 (13)	3,949 (836)	0.3
13.	KANPUR	UTTER PRADESH, UTTANCHAL	150 (25)	679 (110)	137 (22)	2,581 (504)	0.2
14.	BHUBANESHWAR	ORISSA	288 (48)	56 (9)	3 (0.4)	1,964 (398)	0.2
15.	GUWAHATI	ASSAM, ARUNACHAL PRADESH, MANIPUR, MEGHALAYA, MIZORAM, NAGALAND, TRIPURA	4 (0.6)	29 (5)	37 (6)	418 (89)	0.03
16.	PATNA	BIHAR, JHARKHAND	9 (1)	68 (11)	234 (37)	501 (87)	0.03
17.	JAMMU	JAMMU & KASHMIR	1 (0.2)	25 (4)	0.00 (0.00)	26 (4)	0.00
18.	REGION NOT INDICATED		50,283 (8,245)	37,544 (6,211)	4,754 (750)	312,814 (62,700)	24
SUB. TOTAL			147,518 (24,299)	189,107 (30,931)	60,298 (9,508)	1,293,303 (258,020)	
19.	RBI'S –NRI SCHEMES (from 2000 to 2002)		0	0	0	533 (121)	
GRAND TOTAL			147,518 (24,299)	189,107 (30,931)	60,298 (9,508)	1,293,836 (258,141)	

Table 3: Statement on RBI's Regional Offices (With State Covered) Received FDI Equity Inflows.

The study of FDI inflow has been based on the data obtained from the following RBI Regional offices.

1. MUMBAI
2. NEW DELHI
3. CHENNAI
4. BANGALORE
5. AHMEDABAD
6. HYDERABAD
7. KOLKATA
8. CHANDIGARH
9. JAIPUR

10. BHOPAL
11. KOCHI
12. PANAJI
13. KANPUR
14. BHUBANESHWAR
15. GUWAHATI
16. PATNA
17. JAMMU

b). FDI Inflow

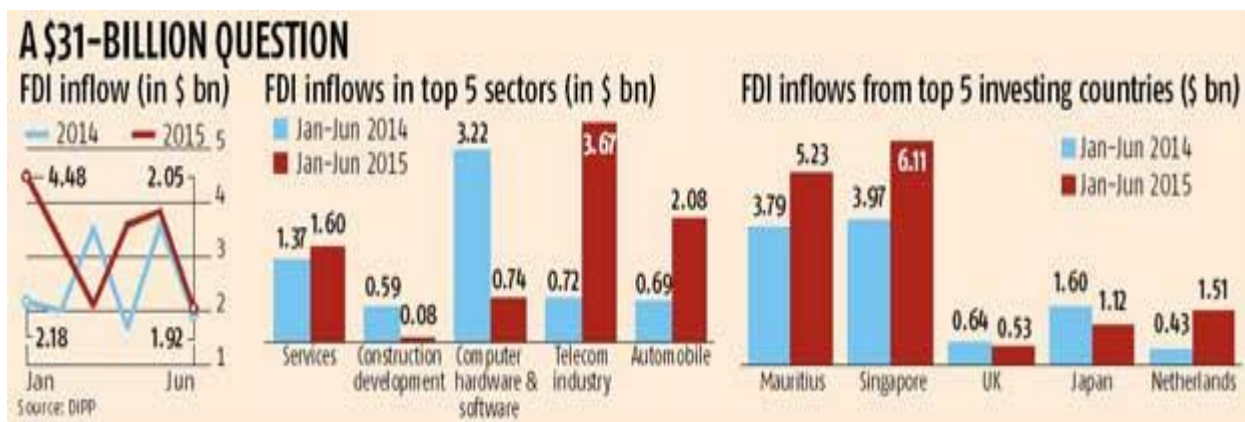


Fig. 1. FDI Inflow

On the basis of analysis of the above mentioned table and the graph and pie chart mentioned below we can say that we are getting maximum inflow from Singapore. The biggest attracting sector for FDI is Telecom industry.

b). Top Location Determinants: Percentage of Projects Citing Investment Motive

In order to get a more broader picture of the parameters and motivations that have influenced Indian companies to

venture overseas, it is desirable investments abroad. For assessing this, real time data from FDI intelligence has been used. As mentioned in above diagram there are various reasons for considering India most favorable destination for the purpose of investment. These are the determinants because of what several countries are interested to invest in India.



Fig. 2. Percentage of Projects Citing Investment Motive

Source: FDI intelligence, EXIM Bank Research

These are the basic determinants for attraction for FDI towards India:

1. Growth Potential in Host market
2. Proximity to markets or customers
3. Availability of skilled workforce
4. Regulations or business climate
5. Infrastructure and logistics
6. Government support
7. Industry cluster

8. Lower cost

9. Finance Incentives

10. Language skills

c). *India's Position in the World*

- *Status of FDI Inflow*

The table given below demonstrates the status of FDI inflows into India, China, Developing countries as a whole and the world average as a % GFC.

FDI Inflow (as Percentage of Fixed Capital Formation) 2003-2016				
Region/economy	India	China	Developing economies	World
2003	4.7	10.3	12.7	9.2
2004	4.6	10.0	9.4	7.8
2005	2.8	8.3	9.5	6.4
2006	2.8	7.7	10.6	6.9
2007	3.0	8.0	11.2	8.5
2008	6.9	6.6	11.5	11.6
2009	6.2	6.1	12.2	13.6
2010	12.3	5.9	11.3	9.8
2011	8.2	4.1	8.5	8.5
2012	5.2	4.2	8.9	8.7
2013	5.8	3.7	8.4	9.1
2014	4.2	3.2	7.8	7.9
2015	5.1	2.9	7.6	8.0
2016	5.9	2.7	7.4	6.5

Table 4: Demonstrates the Status of FDI Inflows.

Source: World Investment Report, 2016, United Nations Conference on Trade and Development.

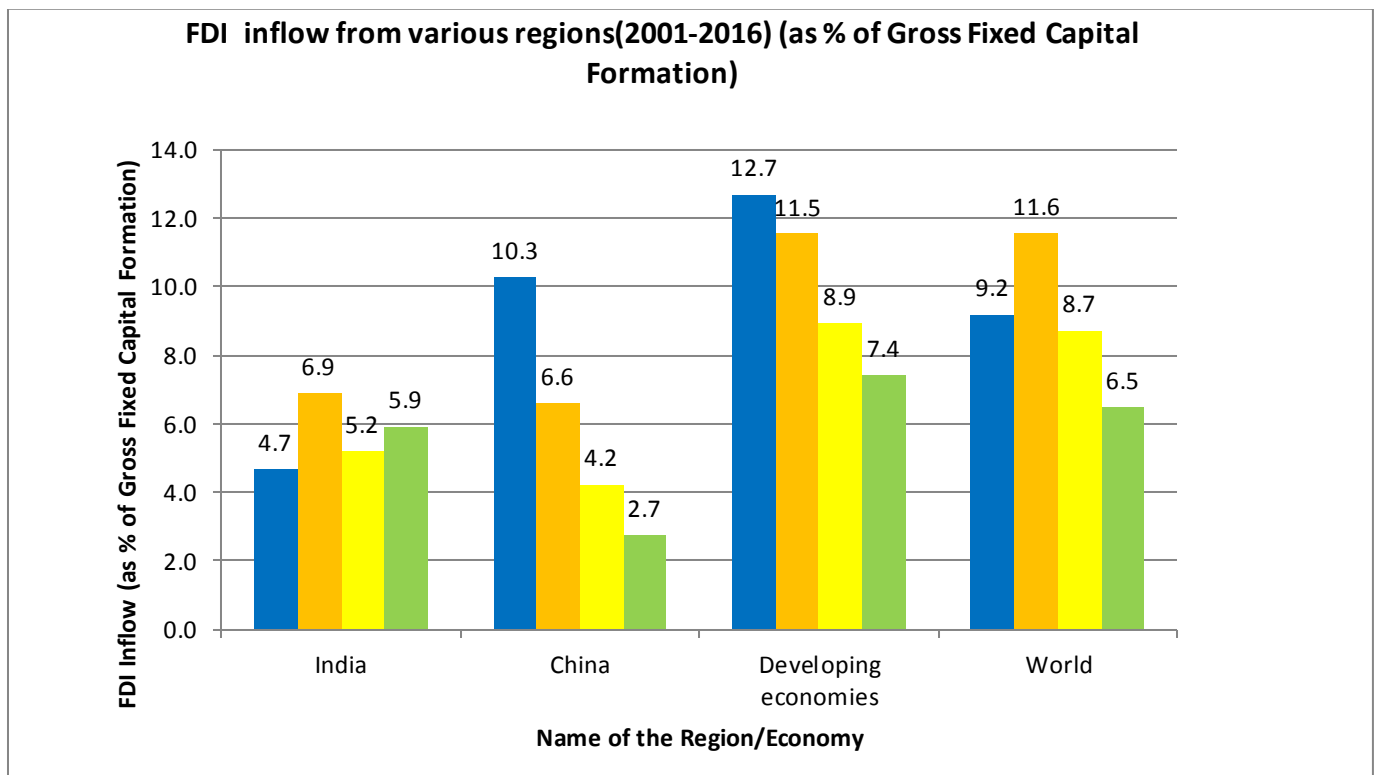


Fig. 3. FDI Inflow From Various Regions (2001-2016) (As% Of Gross Fixed Capital Formation)

Source:- World Investment Report, 2016, United Nations Conference on Trade and Development

FDI inflow as Percentage of GFCF, for developing economies as well as China has declined significantly during the entire period studied. For the world as a whole the FDI inflows increased between 2003 and 2008 and thereafter it declined. On the other hand, for India, FDI as a percentage of GFCF reached a peak in 2008 at 6.9 %, on average it increased over the entire period.

B. CONCLUSION

FDI is as an engine of capital, technology, managerial skills, technological progress & capacity, access to foreign markets and in maintaining economic growth and development for developing countries, where as for developed countries it is considered as a tool for accessing the market of emerging economies. There are a number of factors contributing to this contemporary trend with special reference to being its demographics' with a young population there is a huge consumer base that is to be tapped, the growing middle class, increased urbanization and awareness, rising disposable incomes. India is now opening its policies even more to attract the foreign investment inflows. When large investments pour in, the general climate for inflows improves". Foreign Direct Investment (FDI) is an important driver of growth. It is an important source of economic

development for country whereas some people see threat of FDI to the host as well as domestic business houses.

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