



FDI inflows in India: Recent trends and its impact

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Abstract

The role of foreign direct investment (FDI) in economic growth is multidimensional and well-recognised in both developed and developing countries. FDI also plays a vital role in facilitating the integration of global value chains across countries. However, the flow of FDI is not automatic: it is subject to many factors including regulatory policy, investment environment, competitiveness, market size and political stability in the host country. The shift in the centre of gravity of the world economy and a very aggressive policy stance to encourage FDI by key countries in the Asian region have resulted in diverting the flow of FDI towards Asia, especially to major economies like China and India. The main determinants of FDI in developing countries are inflation, infrastructural facilities, debts, burden, exchange rate, FDI spillovers, stable political environment. In this paper we study the trends and impact of FDI, with respect to India and its economy. So, this paper helps us to study about the present FDI status, and how FDI relates economic development and some suggestions and so on.

Keywords: Foreign direct investment inflow, impact of FDI, Indian economy, service sector, trends

Introduction

India is a developing country and the part of these global villages; its growing rate is immensely good since last decade. Whole world is keep watching us on our developing strength, here are many sectors which require vast investment for same. India will require around US \$ 1 trillion in the 12th five-year plan (2012- 2017), to fund for infrastructure growth covering sectors such as highways, ports and airways. This requires the support in terms of FDI. FDI inflows to India increased 17% in 2013 to reach US \$ 28 billion, as per United Nations (UN) report.

According to IMF (institutional monetary fund) the total capital of 10% or more of foreign company or people is considered as FDI, under this limit is only as shareholdings. The key factor of FDI is “money makes money” it is very true that no one will invest without gain accepts. Highest FDI was recorded in the services, telecommunication, constitution activities and computed head was and software and hospitality sectors. Few sectors all not permitted for FDI like atomic energy, railways, stock markets, real estates and mining of coal and metal. Now a days, India govt is opening its door of market for many investors in various sectors like telecom-100%, insurance-49%, retail single brand -100% and retail multibrand-51% etc. Many companies show their interest like Ikea (Netherland), Wal-Mart (USA), Damini (Italy) etc.

Any emerging nation requires capital to be invested in the region for industrialization. Since, industrialization may be grown with proper funding which is a part of capital investment. Hence foreign capital investment is required for any emerging nation like India which infect leads to employment and growth in the country. So, there are many previous studies have been reviewed related to foreign direct investment and its impact on the Indian economy. A few of them are as follows:

Review of Literature

Singhania & Gupta (2011) found that inflation and growth of gross domestic product positively impact the inflow of

FDI in India. The author also in his paper found that 63% variation in FDI inflows into India. Trade openness, gross domestic product, interest rate, inflation, technological growth and money growth have taken as explanatory variables and FDI is dependent variable.

Goswami & Kanta, (2012) ^[3] investigated the trend of FDI inflows from 1991 to 2011, the relationship between FDI and manufactured exports and the present status of FDI and exports in Northeast regions. They revealed that NER fails to attract any sizable amount of FDI due to infrastructural and other lacunas in the economy and suggested that there should be some strategic intervention in NER to remove such fundamental constraints.

Prerna & Dhawan (2013) ^[1] estimated the trend and patterns of FDI inflow in India. It has been demonstrated that FDI inflows to India moderated significantly in 2010-11, while other emerging economies in Asia and America received large inflows. They also suggested that policymakers should ensure policy transparency and consistency, as well as a comprehensive long-term development strategy.

Sirisha *et al.* (2015), “A study in the changing trends in the flow of FDI” stated that, in the content of country wise inflow the CAGR ranges from -19.53% of minimum & maximum of 65.28%. There are Luxemburg, Singapore, Japan witnessed positive & Mauritius, USA, Hongkong witnessed negative. In the context of sector analysis CAGR ranged between-52.22 to 52.33 which witnessed highest FDI in communication and lowest in trading industry. For this the author studied for 7 yr that is 2007-08 to 2014-15, by using the term AGR.

Shyam (2017) proposed in his journal, “FDI: future demand of India” mentioned that “consumer are always hungry for modern ways of shopping, Indian retail & employment potential is growing fast too. In his study it was mentioned about retail scene that they are rethinking of best pricing system which e prudent to encourage FDI in retail further.

Pasupathi & Sakthi (2019) ^[2] aimed to analyze the trend of FDI in India, understand the reason behind its fluctuations

and analyzed the impact of the Make in India policy on FDI. This study found that India succeeded in attracting foreign investors after the launching of the Make in India policy and various other government reforms.

Objective of the Study

- To study the trends and patterns of flow of FDI
- To evaluate the impact of FDI on the Indian economy

Government Measures to increase FDI in India

- Government schemes like production-linked incentive (PLI) scheme in 2020 for electronics manufacturing, have been notified to attract foreign investments.
- In 2019, the amendment of FDI Policy 2017 by the government, to permit 100% FDI under automatic route in coal mining activities enhanced FDI inflow. FDI in manufacturing was already under the 100% automatic route, however, in 2019, the government clarified that investments in Indian entities engaged in contract manufacturing is also permitted under the 100% automatic route provided it is undertaken through a legitimate contract.

- Further, the government permitted 26% FDI in digital sectors. The sector has particularly high return capabilities in India as favourable demographics, substantial mobile and internet penetration, massive consumption along technology uptake provides great market opportunity for a foreign investor.
- Foreign Investment Facilitation Portal (FIFP) is the online single point interface of the Government of India with investors to facilitate FDI. It is administered by the Department for Promotion of Industry and Internal Trade, Ministry of Commerce and Industry.
- FDI inflow is further expected to increase –as foreign investors have shown interest in the government's moves to allow private train operations and bid out airports. Valuable sectors such as defence manufacturing where the government enhanced the FDI limit under the automatic route from 49% to 74% in May 2020, is also expected to attract large investments going forward.

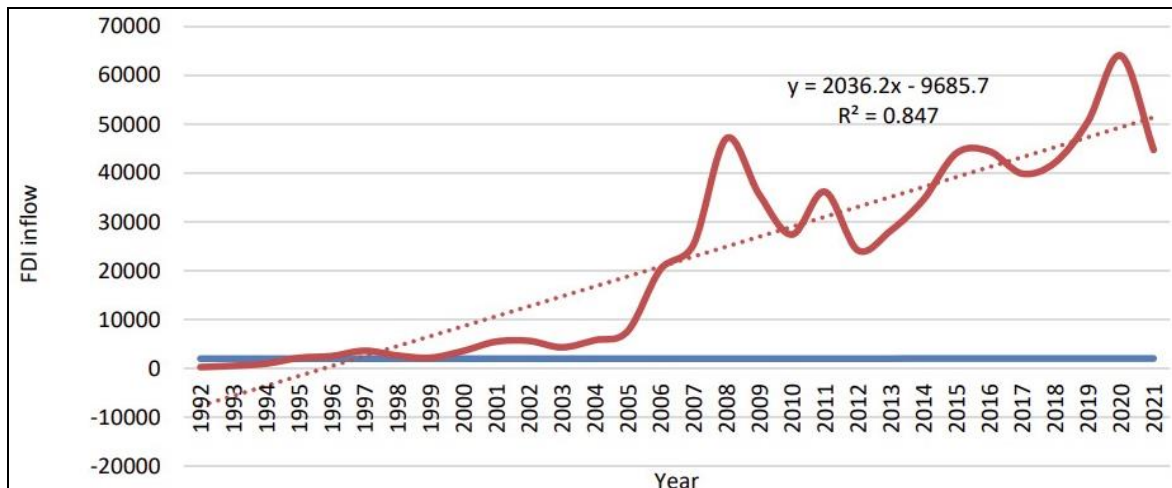
FDI Trends in India

Table 1: FDI Inflow in India

Year	FDI Inflows to India (US\$ '000 Million)	The annual growth rate of FDII (in per cent)	Growth of Gross Domestic Product (in per cent)
1992	0.25	----	0.09
1993	0.53	112.00	0.19
1994	0.97	83.02	0.3
1995	2.15	121.65	0.58
1996	2.53	17.67	0.64
1997	3.62	43.08	0.85
1998	2.63	-27.35	0.61
1999	2.17	-17.49	0.47
2000	3.59	65.44	0.75
2001	5.48	52.65	1.12
2002	5.63	2.74	1.1
2003	4.32	-23.27	0.72
2004	5.78	33.80	0.82
2005	7.62	31.83	0.93
2006	20.33	166.80	2.16
2007	25.35	24.69	2.14
2008	47.1	85.80	3.72
2009	35.63	-24.35	2.71
2010	27.42	-23.04	1.64
2011	36.19	31.98	1.93
2012	24.2	-33.13	1.3
2013	28.2	16.53	1.47
2014	34.58	22.62	1.69
2015	44.06	27.41	2.05
2016	44.48	0.95	1.94
2017	39.9	-10.30	1.52
2018	42.16	5.66	1.53
2019	50.56	19.92	1.75
2020	64.07	26.72	2.4
2021	44.74	-30.17	1.41

Source: www.unctadstat.unctad.org

The FDI inflow into India from 1992-2021 is shown in table-1. In this table annual growth rate of FDII and the growth of GDP (in per cent) are also shown for 30 years from 1992-2021.



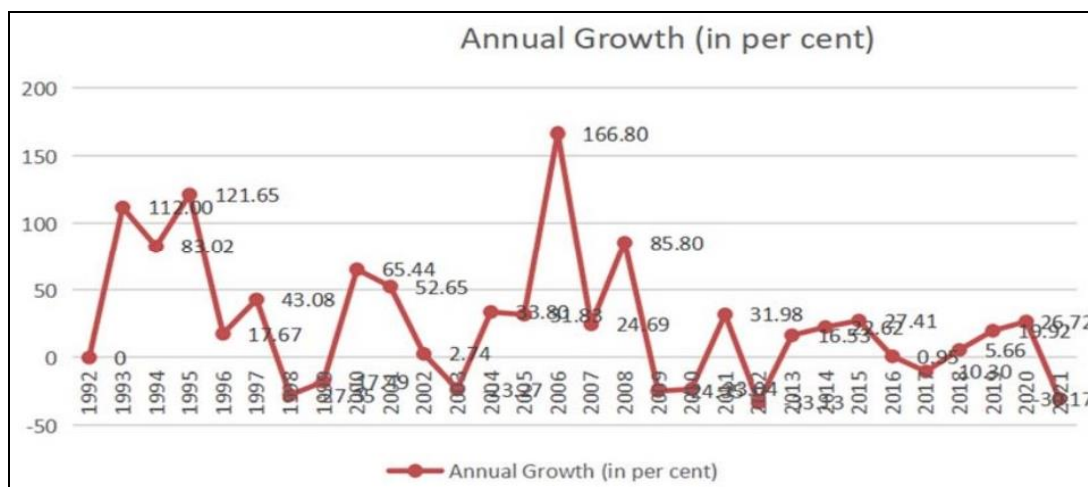
Source: www.unctadstat.unctad.org

Fig 1: Trend Lines of Year Wise FDI Inflow in India

The trend analysis of the FDI data (figure-1) from 1992 to 2021 shows that there is a positive average trend of FDI in India but if we deeply analyze that data, from 1992 to 2005 there is a steep growth arises whereas, after 2005 there is a sharp increase up to 2008 in FDI inflows into India. Again after 2008, a little bit of fluctuation is there in FDI inflow. Still, it is a trend of positive FDI inflow in India. The value of R2 is found around 85% which shows that 85% of the data are closely fitted to the trend line. Hence it is a

goodness of fit of this model.

The per cent wise Annual Growth of FDI inflow into India has been shown in figure-2 where it is clear that there is a steady fluctuation is seen in the figure. It means there is a constant flow of FDI inflow into India during the study period. In 2006, there is a huge inflow of FDI into India since it is showing that around 167% of FDI inflow has been received by India. In 1995 there the second-highest FDI received growth wise is around 122% against 112% in 1994.



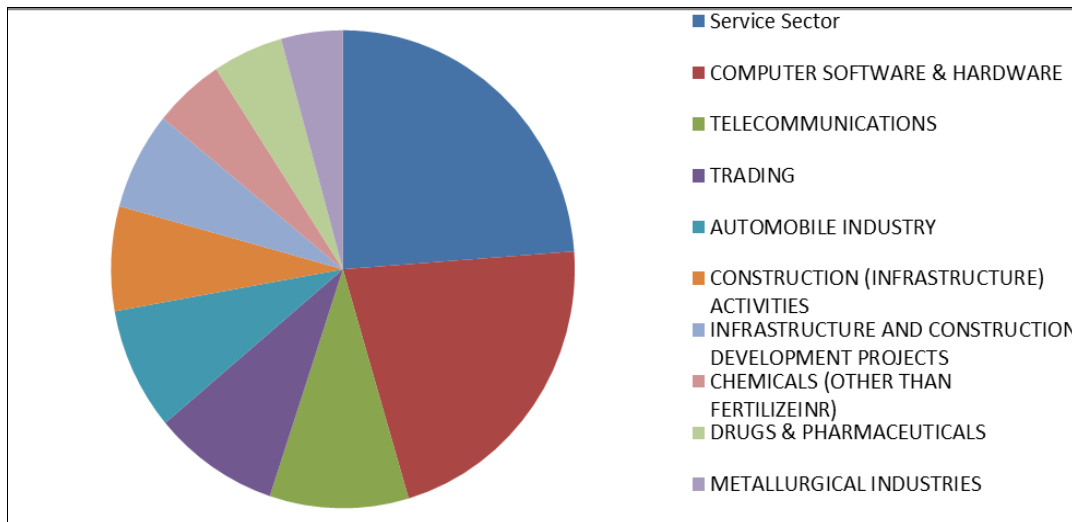
Source: www.unctadstat.unctad.org

Fig 2: Annual Growth of FDI inflow into India (in Percent)

Table 2: Sectors Attracting Highest FDI Equity Inflows from April 2000 To March 2022

S. No	Sector	Amount of FDI inflow		% of Total inflow
		(In INR crore)	(In USD million)	
1	Services Sector (Fin., Banking, Insurance, Non-Fin/Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis, Other)	5,62,437.5075	94,194.6218	16.0084
2	Computer software & hardware	5,78,059.6447	85,517.2578	14.5337
3	Telecommunications	2,27,053.0637	38,331.2023	6.5144
4	Trading	2,29,131.9222	34,740.7602	5.9042
5	Automobile industry	2,07,480.3173	32,841.6784	5.5815
6	Construction (Infrastructure) activities	1,90,800.6072	27,968.9367	4.7533
7	Infrastructure and Construction Development Projects	1,28,012.6049	26,209.4130	4.4543
8	Chemicals (Other than Fertilizeinr)	1,12,056.7734	19,452.3355	3.3059
9	Drugs & Pharmaceuticals	1,09,382.0691	19,405.3450	3.2979
10	Metallurgical Industries	1,01,380.6254	17,014.6036	2.8916

Source: www.dpiit.gov.in



Source: www.dpiit.gov.in

Fig 3: Sectors Attracting Highest FDI Equity Inflows from April 2000 To March 2022

The above Table 2 and Figure 3 shows India's FDI inflows have increased 20 times from 2000-01 to 2021-22. Among the top ten sectors attracting the most FDI inflows, it is observed that the service sector of our country received the maximum investments constituting almost 16% of the total investments from these countries over the last 21 years, followed by Computer Hardware & Software and Telecommunication sectors with 14% and 6.5% respectively. It is because of the fact that among all the sectors the service sector has been the fastest growing sector of Indian economy over a longer period of time. The contribution of various components of this service sector like trade, financing, hotels, insurance, transport and communication, real estate and business services, social and personal services exceed 60% of India's GDP.

The sectors that attracted the highest FDI equity inflows from April 2000 to March 2022 in India are services sector, computer software and hardware, telecommunications, trading, and automobile industry. The reasons for these sectors attracting the highest FDI equity inflows are as follows:

Services sector: The services sector includes various segments such as financial, banking, insurance, non-financial business, outsourcing, R&D, courier, tech. testing and analysis, and others. This sector has been one of the key drivers of the Indian economy, contributing significantly to its GDP. The sector has a large and growing market, a skilled workforce, and favourable government policies, making it an attractive destination for foreign investors.

Computer software and hardware: The computer software and hardware sector in India has been growing rapidly due to factors such as a large pool of skilled talent, a favourable business environment, and government support. The sector has seen significant investment in areas such as research and development, innovation, and technology, making it a lucrative area for foreign investors.

Telecommunications: The telecommunications sector in India has seen significant growth in recent years due to the increasing demand for mobile and internet services. The sector has attracted investment from global players who see

India as a major growth market for telecommunications services.

Trading: The trading sector in India has been growing due to the country's large consumer base and increasing demand for goods and services. The sector has seen significant investment in areas such as logistics, warehousing, and supply chain management, making it an attractive area for foreign investors.

Automobile industry: The automobile industry in India has been growing due to factors such as a large consumer base, increasing per capita income, and government policies aimed at promoting the sector. The sector has seen significant investment in areas such as research and development, manufacturing, and distribution, making it an attractive area for foreign investors.

Impact of FDI

Foreign Direct Investment (FDI) stands as a key catalyst for India's economic growth, constituting a substantial non-debt financial reservoir for the nation's developmental endeavours. International corporations strategically invest in India, capitalizing on the country's unique investment incentives, including tax incentives and relatively competitive labour costs. This not only facilitates the acquisition of technological expertise but also fosters job creation and various ancillary advantages. The influx of these investments into India is a direct result of the government's proactive policy framework, a dynamic business environment, improving global competitiveness, and a burgeoning economic influence.

The Indian government has implemented a range of policies and initiatives to enhance Foreign Direct Investment (FDI) in the country. Notable efforts include the "Make in India" campaign, which focuses on simplifying procedures and promoting a favourable investment climate across sectors. Liberalization of FDI policies, particularly in retail, defence, insurance, and single-brand retail trading, has been a key strategy. The Goods and Services Tax (GST) implementation has improved transparency, while Special Economic Zones (SEZs) provide dedicated spaces with tax incentives. India's FDI inflows reached record levels, at US\$

84.84 billion during 2021-22. FDI Inflow impact on Indian Economy. Some of them are discussed below.

- **Surge in FDI Inflows:** The liberalization of FDI policies and regulations has attracted higher levels of foreign investment into India. In the fiscal year 2020-21, FDI inflows rose by 13% to reach \$57 billion. This surge in FDI has stimulated economic growth and contributed to the country's development.
- **Job Creation:** Increased FDI inflows have led to the creation of new job opportunities in India. Sectors such as manufacturing, construction, and services have witnessed a boost in employment, providing livelihoods to a significant portion of the population.
- **Technological Advancements:** Foreign investors bring with them advanced technologies, expertise, and best practices, leading to technological advancements and knowledge transfer in India. This infusion of technology has improved the quality of products and services, fostered innovation, and enhanced the competitiveness of domestic industries.
- **Economic Growth:** FDI has played a vital role in boosting India's economy. It has contributed to the expansion of businesses, increased exports, improved the country's balance of payments, and generated additional tax revenues for the government. These factors have further stimulated economic growth and development.

Summing-up

The impact of foreign direct investment (FDI) on Indian economic growth can be significant. FDI plays a crucial role in driving economic development, enhancing productivity, and promoting technological advancement. FDI inflows bring in additional investment capital to the Indian economy. This investment contributes to increased capital formation, which is essential for economic growth. FDI supports the expansion of existing industries, the establishment of new businesses, and the development of infrastructure, all of which stimulate economic activity and contribute to GDP growth. FDI brings with it advanced technology, managerial expertise, and best practices from foreign companies. This technology transfer and knowledge spillover can enhance productivity, improve the quality of products and services, and increase the competitiveness of domestic industries. Improved productivity and competitiveness can lead to higher economic output and sustainable economic growth.

FDI inflows can result in job creation and employment opportunities in the recipient country. Foreign companies establishing or expanding their operations in India create direct and indirect employment, reducing unemployment rates and improving the standard of living. Increased employment levels contribute to higher consumer spending and overall economic growth. FDI can have a positive impact on exports and trade. Foreign companies often establish export-oriented production facilities in India, leveraging the country's skilled workforce and cost advantages. This can lead to increased exports, higher foreign exchange earnings, and reduced trade deficits. FDI can also contribute to import substitution, as domestic production substitutes imports, further improving the

balance of trade. FDI inflows can support infrastructure development, particularly in sectors such as transportation, energy, and telecommunications. Improved infrastructure not only facilitates business operations but also attracts additional investment, promotes regional development, and strengthens overall economic growth. It is important to note that the extent and magnitude of the impact of FDI on Indian economic growth can vary depending on various factors, including the quality of investment, policy environment, institutional framework, and absorptive capacity of the economy. Implementing supportive policies, creating an enabling business environment, and attracting high-quality FDI are key to maximizing the positive impact of FDI on Indian economic growth.

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