

FDI in India – A Trend Analysis

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Abstract

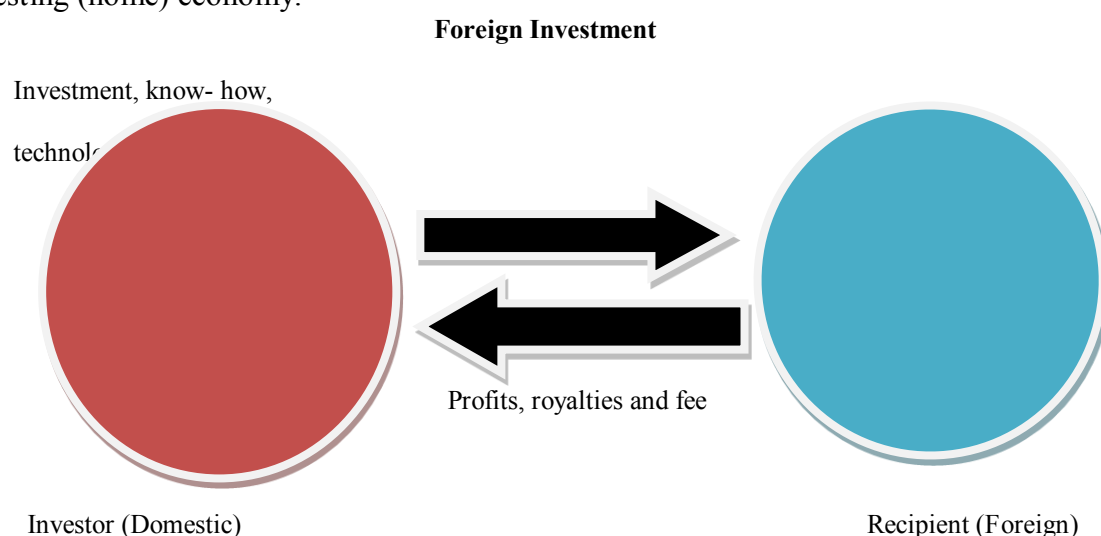
As we know that for smoothing running of any business we require the capital, and it play an important role among the factor of production. At the time of economic crisis, foreign capital plays an important role in the economic development, from that time of Government of India has been making continuous effort to attract foreign capital. The effort includes providing concession in taxes, announcing tax holidays and this is the reason that there has been steady rise in the inflow of foreign capital. There has been a remarkable progress in the Indian economy due to the inflow of foreign capital. The objective of this research paper is to study the trend and pattern of FDI inflows in year-wise, Route-wise FDI equity inflows in India and also study the major sources of FDI inflows country-wise in India and FDI inflows in major cities of India.

Keywords – FDI , India, Economic Development

Introduction

FDI is a key element in this rapidly evolving international economic integration, also referred to as globalization. A Foreign Direct Investment (FDI) is an investment made by a company or entity based in one country, into a company or entity based in another country. FDI is distinguished from portfolio foreign investment, a passive investment in the securities of another country such as public stocks and bonds by the element of control.

FDI provides a means for creating direct, stable and long-lasting links between economies. Under the right policy environment, it can serve as an important vehicle for local enterprise development and it may also help to improve the competitive position of both recipient (host) and investing (home) economy.



In particular, FDI encourages the transfer of technology and know-how between economies. It also provides an opportunity for host economy to promote its products more widely in international markets, FDI, in addition to its positive effect on development of international trade, is an important source of capital for a range of host and home countries.

FDI Policy Framework in India

This section undertakes a review of India's FDI policy framework. There has been a sea change in India's approach to foreign investment from the early 1990s when it began structural economic reforms about almost all the sectors of the economy.

a) Pre-Liberalization Period

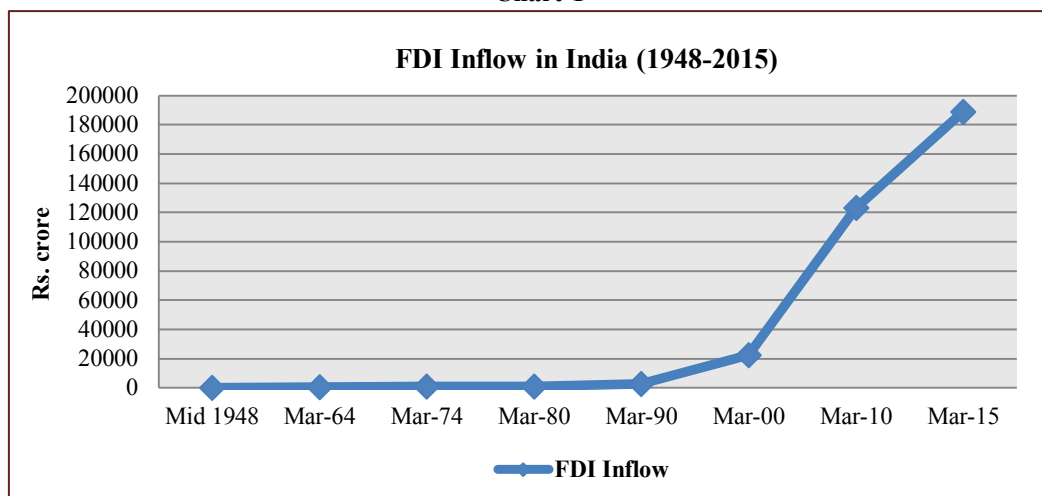
Historically, India had followed an extremely careful and selective approach while formulating FDI policy in view of the governance of import-substitution strategy of industrialization. The regulatory framework was consolidated through the enactment of Foreign Exchange Regulation Act (FERA), 1973 wherein foreign equity holding in a joint venture was allowed only up to 40 percent. The announcements of Industrial Policy (1980 and 1982) and Technology Policy (1983) provided for a liberal attitude towards foreign investments in terms of changes in policy directions. The policy was characterized by de-licensing of some of the industrial rules and promotion of Indian manufacturing exports as well as emphasizing on modernization of industries through liberalized imports of capital goods and technology. This was supported by trade liberalization measures in form of tariff reduction by shifting of large number of items from import licensing to Open General Licensing (OGL).

Table:1 FDI Inflows in India (1948-2015) (Rs. Crore)

Mid 1948	March 1964	March 1974	March 1980	March 1990	March 2000	March 2010	March 2015
256	565.5	916	933.2	2705	22450	123120	189107

Source: Various issues of SIA Publication, Ministry of Commerce, GOI.

Chart-1



Source: Various issues of SIA Publication, Ministry of Commerce, GOI.

Table-1 shows FDI inflows in India from 1948-2015. FDI inflows during 1991-92 to March 2015 in India increased manifold as compared to during mid-1948 to March 1990 (Chart-1). FDI inflows are welcomed in 64 sectors in March 2015 as compared to 16 sectors in 1991. The FDI inflows in India during mid-1948 were Rs. 256 crores. It is almost double in March 1964 and increases further to Rs. 916 crores. India received a cumulative FDI inflow of Rs. 5,375.7 crores during mid-1948 to March 1990 as compared to 1,355,438 crores during April 1991 to March 2015 (Table-1). It is observed from the (Chart-1) that there has been a steady flow of FDI in India after its Independence. But there is a sharp rise in FDI inflows from 2004 onwards.

b) Post-Liberalization Period

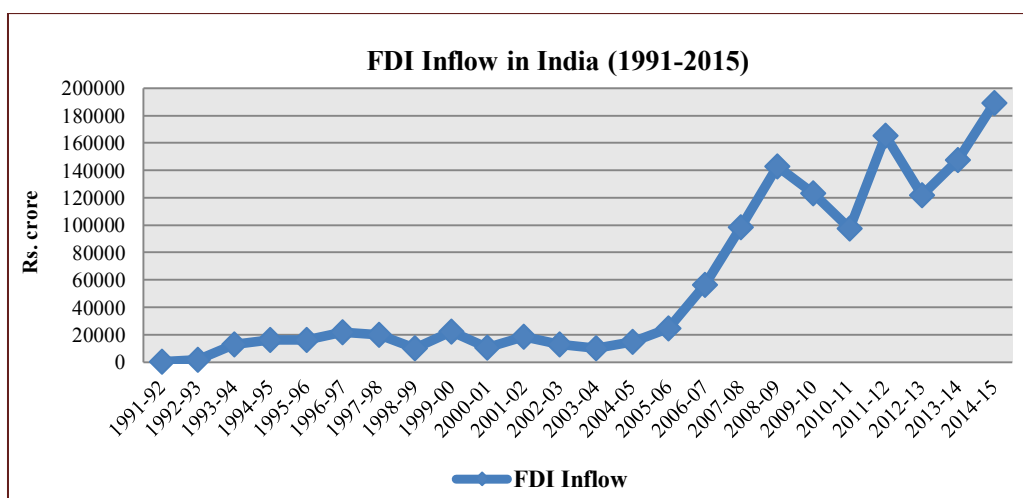
A major shift occurred when India embarked upon economic liberalization and reforms program in 1991 aiming to raise its growth potential and integrating with the world economy. India's economic performance in the post reforms period has many positive features. FDI inflow in India was valued at Rs. 189107 crore in March 2015 as compared to March 1992 was Rs. 326 crore (Table-2). The growth rate of FDI inflows was averaged 28.19 % in 2015 over 2014. During 1991-2015 the compound annual growth rate was 30.36 %. Annual inflow of FDI in India is presented in Table-2 & Chart-2.

Table-2 FDI Inflows in India (Rs. Crore)

Years	FDI Inflow in India	Growth Rate (%)
1991-92	326	---
1992-93	1713	425.46
1993-94	13026	660.42
1994-95	16133	23.85
1995-96	16364	1.43
1996-97	21773	33.05
1997-98	20014	-8.079
1998-99	10101	-49.53
1999-00	22450	122.25
2000-01	10733	-52.19
2001-02	18654	73.8
2002-03	12871	-31.001
2003-04	10064	-21.81
2004-05	14653	45.60
2005-06	24584	67.77
2006-07	56390	129.38
2007-08	98642	74.93
2008-09	142829	44.79
2009-10	123120	-13.80
2010-11	97320	-20.95
2011-12	165146	69.69
2012-13	121907	-26.18
2013-14	147518	21.009
2014-15	189107	28.19
CAGR (%)	---	30.36 %

Source: Various issues of Economic Survey, RBI Bulletin

Chart-2



Source: Various issues of Economic Survey, RBI Bulletin.

Further, the explosive growth of FDI gives opportunities to Indian industry for technological up gradation, gaining access to global managerial skills and practices, optimizing utilization of human and natural resources and competing internationally with higher efficiency.

Objectives of the Study

- To study the trends and pattern of Foreign Direct Investment (FDI) inflows in India.
- To give the recommendations for improving FDI inflows in India.

Data base and Research Methodology

Various statistical and mathematical techniques have been used in the research paper to provide analytical results of the data. The following methods have been used to analyse the data:

A. Tabular Analysis

On the basis of the data collected from the various sources, the tabulation analysis is made to make study more meaningful. The use of tables, charts, graphs is also made whenever it is needed and necessary for clarify of thoughts, easy understanding and to make the presentation of research more vivid.

B. Growth Rate

Trend indicates the directions of operations over a period of time. It also predicts the historical development's in bank's operations.

a. Simple Growth Rate

It simply gives the percentage increase over the previous year i.e.

$$g = \frac{Y(t) - Y(t_0)}{Y(t_0)} * 100$$

g = simple percentage growth rate over the base year

Y (t) = value of the given parameter in the current year

Y (t₀) = value of the given parameter in the base year

b. Compound Annual Growth Rate

It indicates change for a given period on the basis of the base year and the end year values i.e.

$$g = [(Y_1/Y_0)^{1/t} - 1] 100$$

g = compound growth rate

Y₁ and Y₀ = values of the variable Y at the end year and base year

t = difference of years between the end year and the base year

c. Trend Analysis

In the trend analysis, we used the Least Squares method. The method of least squares may be used either to fit a straight line trend or a parabolic trend. The straight line trend is represented by the equation

$$Y_c = a + b X$$

Y_c = trend values

a = computed trend figure of the y variable when $x = 0$,

b = slope of the trend line (or amount of change in y for a given

X = independent variable (which is time in the case).

The constant 'a' is equal to the mean of Y values and the constant 'b' gives the rate of change.

Analysis and Interpretation

Trends and Pattern of FDI inflows in India

New Economic Policy adopted by India in 90s made the country one of the prominent performers of global economies by placing the country as the 4th largest and the 2nd fastest growing economy in the world.

The actual FDI inflows in India is welcomed under five broad heads: (i) Foreign Investment Promotion Board's (FIPB) discretionary approval route for larger projects, (ii) Reserve Bank of India's (RBI) automatic approval route, (iii) Acquisition of shares route, (iv) RBI's NRI's schemes and (v) Other equity capital of unincorporated bodies.

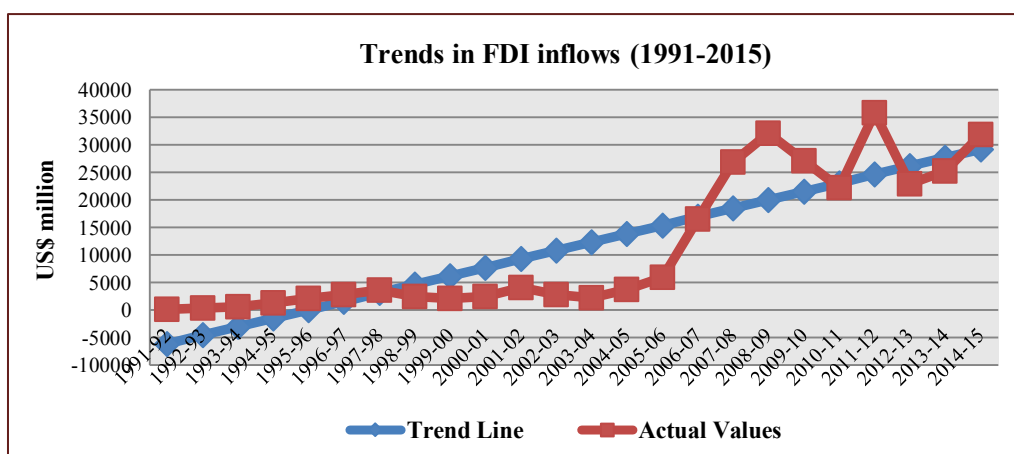
As shown in Table-3, the annual growth rate was 26.16 % in 2015 over 2014. During 1991-2015 the compound annual growth rate was 25.81 % in Table-3. The increase in FDI inflows during 2015 is due to increased economic growth and sustained developmental process of the country which restore foreign investor's confidence in Indian economy despite global economic crisis.

Table-3 FDI Inflows in India (US \$ million)

Years	FDI Inflow in India	Growth Rate (%)
1991-92	129	---
1992-93	315	144.19
1993-94	586	86.03
1994-95	1314	124.23
1995-96	2144	63.17
1996-97	2821	31.58
1997-98	3557	26.09
1998-99	2462	-30.78
1999-00	2155	-12.47
2000-01	2400	11.37
2001-02	4095	70.62
2002-03	2764	-32.50
2003-04	2229	-19.36
2004-05	3778	69.49
2005-06	5975	58.15
2006-07	16481	175.83
2007-08	26864	63
2008-09	32066	19.36
2009-10	27146	-15.34
2010-11	22250	-18.04
2011-12	35855	61.15
2012-13	22884	-36.18
2013-14	25274	10.44
2014-15	31886	26.16
CAGR (%)	---	25.81 %

Source: Computed from the various issues of RBI Bulletin, Ministry of Commerce.

Chart-3



Source: Computed from the various issues of RBI Bulletin, Ministry of Commerce.

An analysis of the last twenty five years of trends in FDI inflows (Chart-3) shows that there has been a steady flow of FDI in the country up to 2004, but there is an exponential rise in the FDI inflows from 2005 onwards. FDI inflows were US \$ 129 million in 1992 after that the inflows reached to its peak to US \$ 2144 million in 1996. Subsequently, these inflows touched a low of US \$ 2462 million in 1999 but then shot up in 2000. Except in 2002, which

shows a slight decline in FDI inflows, FDI has been picking up since 2003 and rose to an appreciable level. The accumulated FDI inflows in India during August 1991 to March 2015 are US \$ 277430 million.

Trends and Pattern of Route-wise FDI Equity inflows in India

In the trends and pattern of route-wise equity inflows in India describe the various routes of FDI such as FIPB route, Automatic route, Acquisition of existing shares, and RBI's NRI's schemes. The route-wise FDI inflows show in Table-4.

Table-4 Route-wise FDI Equity Inflows (US \$ million)

Year	FIPB / SIA Route	Automatic Route (RBI)	Acquisition of existing Shares	RBI's NRI's Schemes
1991-92	66	---	---	63
1992-93	222	42	---	51
1993-94	280	89	---	217
1994-95	701	171	---	442
1995-96	1249	169	11	715
1996-97	1922	135	125	639
1997-98	2754	202	360	241
1998-99	1821	179	400	62
1999-00	1410	171	490	84
2000-01	1456	454	362	67
2001-02	2221	767	881	35
2002-03	919	739	916	---
2003-04	928	534	735	---
2004-05	1062	1258	930	---
2005-06	1126	2233	2181	---
2006-07	2156	7151	6278	---
2007-08	2298	17127	5148	---
2008-09	4699	17998	4632	---
2009-10	3471	18987	3148	---
2010-11	1945	12994	6437	---
2011-12	3046	20427	11360	---
2012-13	2319	15967	3539	---
2013-14	1185	14869	8245	---
2014-15	2219	22530	6185	---

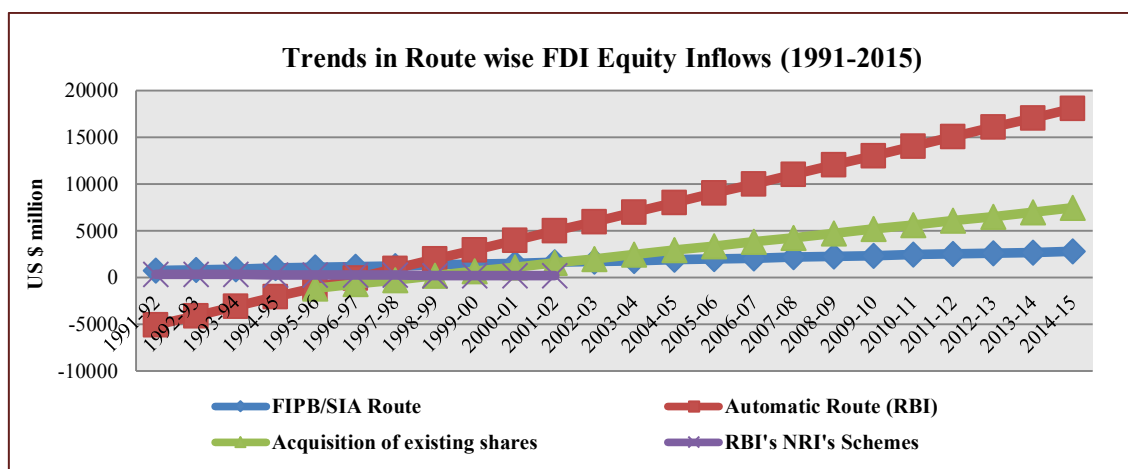
Source: Computed from the various issues of RBI Bulletin, Ministry of Commerce.

The actual inflows of FDI through various routes in India are described in (Table-4 and Chart-4). The FIPB route represents larger projects which require bulk of inflows and account for government's discretionary approval.

Although the share of FIPB route is declining somewhat as compared to RBI's automatic route and acquisition of existing shares route.

Automatic approval route via RBI shows an upward trend of FDI inflows since 1995. This route is meant for smaller sized investment projects. Acquisition of existing shares route and external commercial borrowing route gained prominence (in 1999 and 2003) and shows an upward increasing trend.

Chart-4



Source: Computed from the various issues of RBI Bulletin, Ministry of Commerce.

Sources of FDI in India

The sources of FDI inflows to India has widened during the era of reforms. There were 147 countries investing in 2015 as compared to 15 countries in 1991. After liberalization of economy Mauritius, South Korea, Malaysia, Cayman Islands and many more countries predominantly appears on the list of major investors apart from U.S., U.K., Germany, Japan, Italy, and France which are not only major investor now but during pre-liberalizations era also. The analysis in (Table-5) presents major investing countries in India during 1991-2015.

Table-5 Major Sources of FDI in India [Percentage (%)]

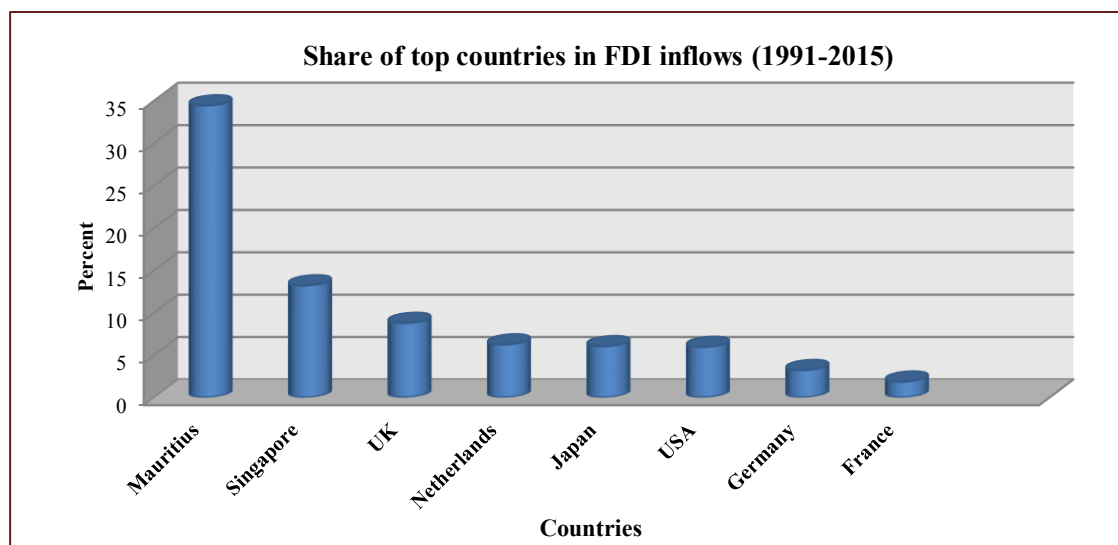
Mauritius	Singapore	UK	Netherlands	Japan	USA	Germany	France
34.43	13.21	8.78	6.24	6.03	5.95	3.21	1.85

Source: Computed from the various issues of RBI Bulletin, Ministry of Commerce.

Mauritius (Chart-5) is largest investor in India during 1991-2015. It shares 34.43 % of total FDI inflows in India and enjoying top position on India's FDI inflows. The Singapore is the second largest investing country in India. It shares 13.21 % of total FDI inflows of India. The other top major countries like U.K., Netherlands, Japan, U.S.A., Germany, and France shares 32 % of total FDI inflows of India.

Thus, an analysis of last twenty five years of FDI inflows shows that only five countries such as Mauritius, Singapore, U.K., Netherlands, and Japan accounted for nearly 68 % of the total FDI inflows in India (Table-5 and Chart-5). So, India needs enormous amount of financial resources to carry forward the agenda of transformation to tackle imbalance in BOP, to accelerate the rate of economic growth and have a sustained economic growth.

Chart-5



Source: Computed from the various issues of RBI Bulletin, Ministry of Commerce.

Distribution of FDI within India

Table-6 and Chart-6 shows FDI inflows in major cities of India.

Table-6 FDI inflows in major cities of India [Percentage (%)]

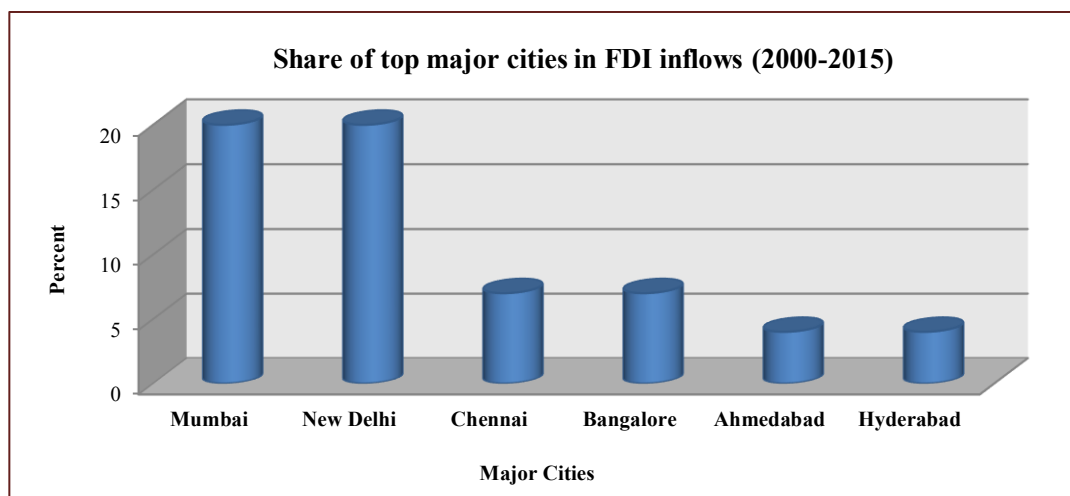
Mumbai	New Delhi	Chennai	Bangalore	Ahmedabad	Hyderabad
29	20	7	7	4	4

Source: Computed from the various issues of RBI Bulletin, Ministry of Commerce.

Data in (Chart-6) reveal that the 6 cities in aggregate FDI inflows constitute US \$ 176718 million or 71 % of total FDI inflows during April 2000 to March 2015. Out of this, 49 % of total FDI inflows (US \$ 122528 million) in India are heavily concentrated around two cities in Mumbai and New Delhi and 22 % (US\$ 54190 million) of FDI inflows are other cities such as Chennai, Bangalore, Ahmedabad, and Hyderabad. Mumbai is at the top position of FDI inflows in India during April 2000 to March 2015.

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Conclusion

From the above analysis, the study concluded that trends in FDI inflows in India were low but there is a sharp rise in investment flows from 2006 onwards. It is observed that India received FDI inflows of US \$ 259547 million during April 2001 to March 2015 as compared to US \$ 17883 million during August 1991 to March 2001. India received a cumulative FDI inflow of US \$ 277430 million during August 1991 to March 2015. The annual growth rate was 26.16 % in 2015 over 2014. During 1991-2015 the compound annual growth rate was 25.81 %. Major FDI inflows in India are concluded through automatic route and acquisition of existing shares route than FIPB/SIA route. Mauritius tops the major top countries of FDI inflows in India in 2015 and Mumbai and New Delhi are the two cities which are concentrated high FDI inflows are 49 percent during 1991 to 2015.

Recommendations

- FDI should be guided so as to establish deeper linkages with the economy, which would stabilize the economy e.g. facilitates exports, and providing to investors a sound and reliable macroeconomic environment.
- It recommends that government must also control over inefficient bureaucracy, red-tapes, and the corruption, so that investor's confidence can be maintained for attracting more FDI inflows to India.

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