

## TRENDS AND FLOW OF FOREIGN DIRECT INVESTMENT IN INDIA

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### RESEARCH ABSTRACT

Since the beginning of liberalization FDI flows to India have steadily grown in importance. In this paper we analyze these flows and their relationship with Indian equity market. Foreign capital flows have particularly become prominent after the advent of globalization that has led to widespread implementation of liberalization programmes and financial reforms in various countries across the globe in 1990s. Foreign portfolio inflows through FDIs, in India, are important from the policy perspective, especially when the country has emerged as one of the most attractive investment destinations in Asia. This paper reveals if the FDIs influence the Indian Equity Market. The present study has concentrated on the trends of FDI Flow in India amid 2000-01 to 2013-14 (up to November, 2013). The study additionally highlights nation astute endorsements of FDI inflows to India and the FDI inflows in distinctive division for the period April 2000 to Nov 2013. The study in light of Secondary data which have been gathered through reports of the Ministry of Commerce and Industry, Department of Industrial Promotion and Policy, Government of India, Reserve Bank of India, and World Investment Report. The study presumes that Mauritius rose as the most predominant wellspring of FDI contributing. It is on account of the India has Double Taxation Avoidance Agreement (DTAA) with Mauritius and the majority of the outside nations like to put resources into administration segment.

**Keywords :** Foreign Direct Investment (FDI); Sectors; Country shrewd FDI

### INTRODUCTION

Capital formation is a critical determinant of economic development. While domestic investments add to the capital stock in an economy, foreign direct investment (FDI) assumes a correlative part in general capital formation by filling the crevice between domestic funds and investment. Foreign direct investment (FDI) is an immediate investment into production or business in a nation by an organization in another nation, either by purchasing an organization in the objective nation or by extending operations of a current business in that country. FDI gives a win – win circumstance to the host and the nations of origin. Both nations are straightforwardly intrigued by welcoming FDI, in light of the fact that they benefit a ton from such sort of investment. India is seen to be a standout amongst the most lucrative reason for contributing, according to the rich European and in addition American speculators. The chronicled foundation of FDI in India can be followed back with the foundation of East India. Further, after Independence issues identifying with foreign capital, operations of MNCs, picked up consideration of the strategy creators. Before 1991, the FDI strategy framework in India was profoundly controlled. The legislature went for practicing control over foreign exchange exchanges. All dealings in foreign exchange were managed under the Foreign Exchange Regulation Act (FERA), 1973, the violation of which was a criminal offense. Through this Act, the administration attempted to save foreign exchange assets for the economic advancement of the country. Therefore the investment procedure was tormented with

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numerous obstacles including unethical practices that turned out to be a piece of bureaucratic systems. Under the deregulated administration, FERA was solidified and amended to present the Foreign Exchange Management Act (FEMA), 1999. The new Act was less stringent and went for enhancing the capital record administration of foreign exchange in India. The Act tried to encourage external exchange and installments and to advance efficient improvement and support of the foreign exchange market in India. It brought about enhanced access to foreign exchange. In 2012, UNCTAD review anticipated India as the second most imperative FDI destination (after China) for transnational organizations amid 2010–2012. With its predictable development execution and copious high-talented labor, India gives gigantic chances to investment likewise gives a liberal, attractive, and financial specialist well disposed investment atmosphere. FDI in divisions/activities to the degree allowed under programmed course does not require any earlier approbation either by the Government or RBI. FDI in activities not secured under the programmed course requires former Government regard. Such proposition are considered by the Foreign Investment Promotion Board (FIPB). An increment in FDI may be connected with enhanced economic development because of the deluge of capital and expanded expense incomes for the host nation. Host nations regularly attempt to channel FDI investment into new infrastructure and different ventures to help improvement. More prominent competition from new organizations can prompt profitability picks up and more noteworthy proficiency in the host nation and it has been recommended that the utilization of a foreign element's arrangements to a domestic subsidiary may enhance corporate governance norms. Besides, foreign investment can bring about the exchange of delicate abilities through preparing and employment creation, the accessibility of more propelled innovation for the domestic business.

### **Objectives of the study**

1. To analyze the trends of FDI Flow in India during 2000-01 to 2013-14 (up to November, 2013)
2. To study the FDI flows as to distinguish country wise approvals of FDI inflows to India.
3. To analyze the Sector wise appropriation of FDI inflows.

### **Nature and Sources of data**

The present study is based on Secondary data. The relevant secondary data has been collected from reports of the Ministry of Commerce and Industry, Department of Industrial Promotion and Policy, Government of India, Reserve Bank of India, and World Investment Report. The time period of the study has been take April 2000 to November 2013.

### Analysis of the study

**Table 1.** Financial Years Wise FDI Flow From 2000-01 to 2013-14 (up to November, 2013)

| S. No. | Financial Year (April To March) | Total FDI flow in US\$ Million | Total FDI Flows % Growth Over Previous |
|--------|---------------------------------|--------------------------------|--|
| 1.     | 2000-01                         | 4,029                          | -                                      |
| 2.     | 2001-02                         | 6,130                          | (+) 52 %                               |
| 3.     | 2002-03                         | 5,035                          | (-) 18 %                               |
| 4.     | 2003-04                         | 4,322                          | (-) 14 %                               |
| 5.     | 2004-05                         | 6,051                          | (+) 40 %                               |
| 6.     | 2005-06                         | 8,961                          | (+) 48 %                               |
| 7.     | 2006-07                         | 22,826                         | (+) 146 %                              |
| 8.     | 2007-08                         | 34,843                         | (+) 53 %                               |
| 9.     | 2008-09                         | 41,873                         | (+) 20 %                               |
| 10.    | 2009-10 (P) (+)                 | 37,745                         | (-) 10 %                               |
| 11.    | 2010-11 (P) (+)                 | 34,847                         | (-) 08 %                               |

**Table 1.** Financial Years Wise FDI Flow From 2000-01 to 2013-14 (up to November, 2013)

| S. No.  | Financial Year (April To March) | Total FDI flow in US\$ Million | Total FDI Flows % Growth Over Previous |
|---|---------------------------------|--------------------------------|--|
| 12.   | 2011-12 (P)                     | 46,556                         | (+) 34 %                               |
| 13.   | 2012-13 (P)                     | 36,860                         | (-) 21%                                |
| 14  | 2013-14<br>(P)(Apr-Oct, 2013)   | 18,934                         | -                                      |
| Cumulative total<br>(from april, 2000 to October, 2013) |                                 | 309,012                        | -                                      |

**Source:** DIPP, Federal ministry of commerce and industry, govt of India

Table no 1 depicts that flows of FDI received in India during April 2000 to October 2013 i.e. 309,012 US\$ million. From the year 2000 to 2002 FDI inflow in India has shown a rising trend. This may be the result of Foreign Exchange Management Act (FEMA) which was introduced in 1999. Further it follow opposite negative trend up to period 2003-2004. But from the year 2004-05 to 2008-09 investment into India once again start increasing. The highest FDI inflows growth in the country in 2006-2007 year was 146%. Further, FDI inflows soared up by 34 % to US\$ 46,556 million during 2011-12. Last year April 2012-13 has shown negative growth rate i.e. -21% to US\$ 36,860 million while the cumulative amount of FDI equity inflows from April 2000 to October 2013 stood at US\$ 309,012 billion, according to the latest data released by the Department of Industrial Policy and Promotion (DIPP).

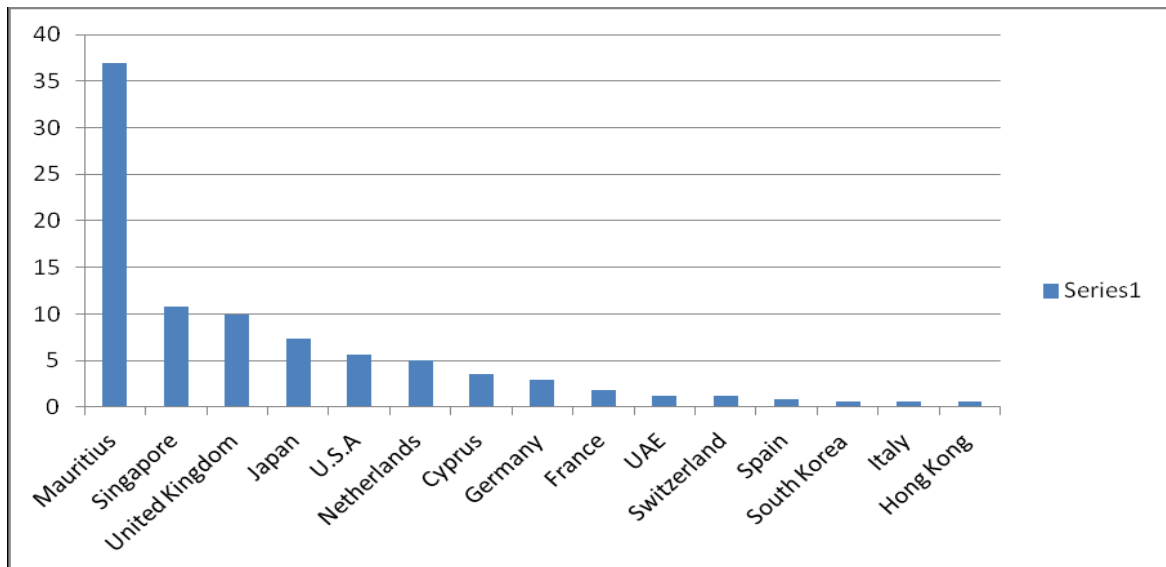
**Table 2.** Country -Wise FDI Inflows from April 2000 to November, 2013

| S.No              | Name of the country | Amount of FDI inflow<br>(in US\$ million) | % age with total FDI<br>inflow |
|-------------------|---------------------|---|--------------------------------|
| 1                 | Mauritius           | 77,083.47                                 | 36.93                          |
| 2                 | Singapore           | 22,515.91                                 | 10.79                          |
| 3                 | United Kingdom      | 20,671.41                                 | 9.90                           |
| 4                 | Japan               | 15,269.34                                 | 7.31                           |
| 5                 | U.S.A               | 11,692.93                                 | 5.60                           |
| 6                 | Netherlands         | 10,472.78                                 | 5.02                           |
| 7                 | Cyprus              | 7,259.63                                  | 3.48                           |
| 8                 | Germany             | 6,113.50                                  | 2.93                           |
| 9                 | France              | 3,780.73                                  | 1.81                           |
| 10                | UAE                 | 2,637.77                                  | 1.26                           |
| 11                | Switzerland         | 2,535.36                                  | 1.21                           |
| 12                | Spain               | 1,748.19                                  | 0.84                           |
| 13                | South Korea         | 1,296.34                                  | 0.62                           |
| 14                | Italy               | 1,240.24                                  | 0.59                           |
| 15                | Hong Kong           | 1,188.99                                  | 0.57                           |
| Total FDI Inflows |                     | 185506.59                                 | 88.86                          |

**Source:** DIPP, Federal Ministry of Commerce & Industry, Government of India

Table depicts the country wise FDI inflow in India during April 2000 -Nov 2013. The analysis indicates that large part of FDI in India is contributed by fifteen countries which is. 185506.59 US \$ million while remaining aprox. 11 per cent by rest of the world. Mauritius emerged as the most dominant source of FDI contributing 77,083.47 US\$ million of the total investment in the country. It is because the India has Double Taxation Avoidance Agreement( DTAA) with Mauritius . This (DTAA) type of taxation treaty has been made out with Singapore .So Singapore is second biggest Investor of FDI inflow in India. The other real countries are U.K with a relative share 20,671.41 US\$ million followed by Japan. While some countries like South Korea, Italy, Hong Kong has less partakes in total FDI Inflow.

Figure 1 represent the %age of total FDI inflow in India by different countries. 88.86percent aggregate FDI inflow in the India by fifteen countries in which Mauritius contribute 36.96 percentage of the aggregate investment in the nation followed by Singapore, United Kingdom, Japan etc



Source: DIPP, Federal Ministry of Commerce & Industry, Government of India

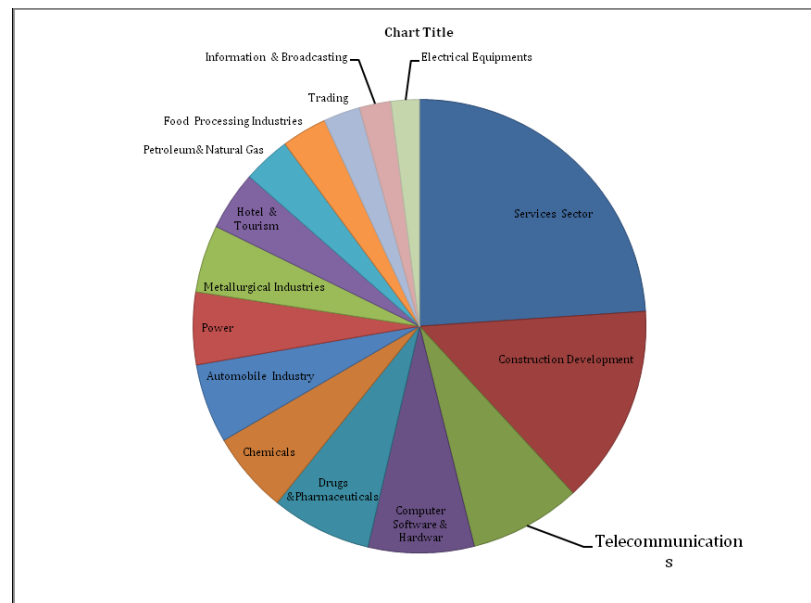
**Table 3.** Sector -Wise FDI Inflow from April, 2000 to November, 2013

| S. No | Sectors                           | Amount of FDI Inflows (In US\$ million) | %age with total FDI Inflows |
|-------|-----------------------------------|---|-----------------------------|
| 1     | Services Sector                   | 38,713.32                               | 18.55                       |
| 2     | Construction Development          | 22,969.45                               | 11.00                       |
| 3     | Telecommunications                | 12,888.72                               | 6.17                        |
| 4     | Computer Software & Hardwar       | 12,220.28                               | 5.85                        |
| 5     | Drugs & Pharmaceuticals           | 11,570.50                               | 5.54                        |
| 6     | Chemicals(OTHER THAN FERTILIZERS) | 9,362.40                                | 4.49                        |
| 7     | Automobile Industry               | 9,133.26                                | 4.38                        |
| 8     | Power                             | 8,357.23                                | 4.00                        |
| 9     | Metallurgical Industries          | 7,780.61                                | 3.73                        |
| 10    | Hotel & Tourism                   | 6,825.56                                | 3.27                        |
| 11    | Petroleum& Natural Gas            | 5,483.63                                | 2.63                        |
| 12    | Food Processing Industries        | 5,230.08                                | 2.51                        |
| 13    | Trading                           | 4,236.54                                | 2.03                        |
| 14    | Information & Broadcasting        | 3,639.93                                | 1.74                        |
| 15    | Electrical Equipments             | 3,276.62                                | 1.57                        |

Source: DIPP, Federal Ministry of Commerce & Industry, Government of India

Table 3 obviously demonstrate the FDI inflows in distinctive division for the period April 2000 to Nov 2013 data uncovers that the majority of the Foreign nations like to put resources into

administration part. Administrations part incorporates Financial, Banking, Insurance, Non-Financial/Business and so on. Offer of Service division altogether FDI is 18.55 for each penny. Second biggest offer of FDI is in the development improvement. Expansive measure of FDI has likewise occurred in telecom division. The telecom industry is currently turned into one of the quickest developing commercial enterprises in India. Some Sector like Information & Broadcasting, Electrical Equipment attracts less FDI in nation. Figure 2 additionally uncovered the graphically part astute FDI inflow in the nation.



## CONCLUSION

India develops as the fifth biggest beneficiary of foreign direct investment over the world. India is viewed as second biggest nation amongst all further creating nations and positions fourth in the PPP on the planet. So India can possibly attract FDI inflow. The present study found that aggregate FDI inflow in India from April 2000 to November 2013 is 311,398 US\$ million. The study additionally uncovers that Mauritius developed as the most overwhelming wellspring of FDI contributing 77,083.47 US\$ million of the aggregate investment in the nation. Expansive piece of FDI in India is contributed by fifteen nations which is 185506.59 US \$ million. The administrations area represented a steeply rising offer of FDI stocks in India took after by development improvement, Telecommunications and Computer Software & Hardware

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