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FOREIGN DIRECT INVESTMENT IN INDIA: A STUDY OF ITS IMPACT ON VARIOUS SECTORS

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ABSTRACT

When it comes to economic development, investment, or the generation of new capital, economic activity a critical issue. It is essential for the economy to expand to a large level. There are several factors that contribute to optimal development in the economy, such as, a sufficient amount of capital and labor, as well as access to natural resources and cutting-edge technology. This capital is also referred to as investment, which includes both local and international sources of investment. Inflows of foreign investment may help close the savings gap in the country's economy. It is generally accepted that these inflows help to stimulate economic development in a developing country. In order to unite economies of the world, the multinational company is an ideal vehicle to do it. A clear correlation exists between the growth of capital inflows and the growth of multinational corporations (MNCs). This also helps to augment Foreign Direct Investment (FDI) inflow and sectoral allocation of resources. In this work, our findings are supported by secondary data that we gathered from a variety of authentic sources. CAGR (Compound Annual Growth Rate) and percentage have been used for the purpose of analysis and interpretation. FDI inflows in India have fluctuated over the last several years, but the overall trend has been upwards, at least in some sectors, according to our research. To highlight, Mauritius has been the leading investor in India, and the service sector has received the most FDI across the research period. The data obtained for the research is confined to the last two decades and is focused only on the Indian economy.

Keywords: Foreign Direct Investment, CAGR, Inflows, and Economic Growth.

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1. INTRODUCTION

It is significant that foreign investment helps a country to grow economically. An important aspect in economic growth and development is the inflow of FDI. (Wang, 1992). It is believed that FDI may assist economies in both affluent and developing countries overcome stagnation and even avoid the poverty trap. Second only to China, India is the world's fastest expanding major economy. Agriculture, handicrafts, manufacturing, textiles, and a wide range of other services all play important roles in India's economy (Wang *et al.,* 1992). For the majority of its independent existence, India followed a socialist-inspired strategy, with rigorous government supervision over private sector involvement, international commerce, and foreign direct investment. To strengthen Indian economic activities, several economic changes have implemented by the Government of India in 1991, under the New Economic Policy reforms. In response to different governmental measures, India has swiftly shifted from a restricted and controlled economy into a liberal system. In the words of the IMF, "an investment functioning in an economy other than that of the investor" constitutes foreign direct investment. For the investor, having a meaningful say in the company's management is a primary goal (Barrell *et.al.,* 1977). In order to oversee a company's production, distribution, and other productive operations in another country, people of one country (the source) obtain ownership of assets *via* the process of host country's FDI. Foreign Direct Investment may be divided into two categories; investing in new developments like new factories and/or shops are built in a foreign country. Second, asset transfers from one local enterprise to another constitute a merger or acquisition. Chinese FDI has the biggest inflows among emerging nations such as Russia, Singapore, Brazil and India, according to a UNCTAD research from 2014. This is mainly due to China's introduction of FDI over two decades ago and its gradual pursuit of foreign investment while changing its FDI regulations. FDI in China has grown at the fastest rate among emerging economies since 1993, while exports and technical innovation have also increased. (Monhanty *et al.,* 2007)

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2. REVIEW OF LITERATURE

Since the 1960s, several hypotheses have been advanced to explain FDI. A range of reasons, some micro and others macro (such as resource allocation, transfer of technology etc.,), have been proposed as possible explanations for the inflows of FDI in the works of Dunning and Lundan, 2008. Both the micro and macro dimensions take into account the characteristics particular to the firm, such as ownership advantages and cost savings, as well as those related to the market, such as entry obstacles, resources, nation risk, and market size. It is called faith; anti-export biases in India's trade policy have not been removed, according to Fischer (2002, 2003) and Balasubramanyam (2003, 2004). According to Rodriguez-Clare, (1996),FDI revenues decrease with reference to the function of country's risk. For FDI, found that a country's legal system and administrative efficiency were critical (2003) and FDI limits proved to be an effective deterrent. As Agarwal (2007)has mentioned, Indian FDI is still mostly concentrated on the domestic market. FDI types and their structural composition are widely acknowledged to have at least as big of an influence on economic growth as the total quantity of FDI. For a country like India, the quality of FDI outweighs the quantity, according to Agrawal (2007). Export-oriented international investments are deemed to be of higher quality when they transmit foreign inventions to the host country, and they provide local benefits for firms and workers in their host countries. For the years 1965-1996, Agrawal (2007) developed a fixed effects model using data from five South Asian host countries, including India. A negative link exists between FDI and GDP, however it is not substantial. Of course, this does not negate the fact that FDI comes from inside. By reducing export promotion's coefficient, it may reduce FDI's growth advantage. Export promotion is a right-side variable. "Investing in/acquiring foreign enterprises or assets and managing the management operations" are the most essential aspects of FDI, according to Bitzenis (2006), who reviewed several definitions of FDI. In all countries, economic growth is expected to be accelerated or aided by FDI. The link between FDI and economic development has been a subject of significant discussion for some time now. Monhanty *et al.* used Panel Data Analysis to look at FDI, GDP, exports, and imports for China, India, Malaysia, and Singapore (2007). There was a positive correlation between FDI and GDP growth in all four countries studied, with a dollar contributing US$ 3.27 billion to GDP for each country. In 2007,

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Reddy,*et al.* evaluated India's economic progress and the effect of FDI philosophically. Comparative analysis of China and India's economies was offered. An analysis of the relationship between FDI and GDP growth in Egypt, Morocco, and Tunisia was conducted by Elboiashi and colleagues (2009).In their study, co-integration time series models including the Vector Error Correction (VEC) model were used from 1970 to 2006. According to their research, FDI had a one-way causal link with GDP in Egypt and Morocco, but had a two-way causal relationship with GDP in Tunisia. According to time series and growth rates in China, a research conducted by Wang *et al.* (2010) found a connection between FDI in logistics and China's GDP. To ensure China's economic progress, they conducted experiments and found that logistics FDI improved the quality of foreign investment and prompted a change in China's economic growth pattern. Agrawal *et al.* (2007) examined the effect of FDI on China and India's economic growth. They looked at the possible reasons of China's high FDI levels and the lessons India may learn from China in order to better utilize FDI. Investing in India and China may have both advantages and disadvantages for investors from outside the two nations, according to the Bose (2012) report. A descriptive and exploratory research study was carried out to examine the current FDI proposal in those two countries. This article appears in the October 2014, published by the Global Wisdom Research Publications (IRJBM). From 2000-01 to 2010-11, Kadam (2012) looked at the direction and impact of FDI on the Indian economy, with the year 2010-11 acting as a reference point. Devajit (2012) sought to understand how FDI is considered as a key economic stimulant for Indian economic development by promoting local investment, improving human capital creation, and enabling technological transfers. To analyze the data and uncover the most interesting conclusions, we used statistical approaches like tabulations, percentage ratios, and so on.

3. OBJECTIVES OF THE STUDY

The following are the important objectives of the study.

1. To analyze the trends of FDI inflows in India.
2. To identify the country-wise flow of FDI into India.
3. To ascertain the sector-wise distribution of FDI inflows in India.

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4. RESEARCH METHODOLOGY

The data used in this investigation is derived from other sources. A wide range of reliable sources, such as the National Statistical Office, the DIPP, the Reserve Bank of India, and *statisticstimes.com*, are used to compile the information in this database. Articles, journals, newspapers, and other sources of information on the Indian economy have also been considered for analysis.

5. DATA ANALYSIS AND INTERPRETATION

Compound Annual Growth Rate and percentage have been used to analyze the FDI inflows to India's economic growth. A basic Percentage calculation was used to make it easy to understand the flow of FDI and its sectoral distribution in India.

Table-1

Financial Year-Wise (Trends) (April, 2000 to March, 2019)

(A). Total FDI Inflows

(Equity inflows + Reinvested earnings + other capital) Amount: US$ in Millions

	Financial Years 2000-01 to 2018-19(April- March)	Foreign Direct Investment (FDI)					
		Equity		Re-invested Earnings	Other Capital	FDI flows into India	
		FIPB Route/RBI Automatic/ Acquisition Route	Equity Capital of unincorporated bodies#			Total FDI Flows	Percentage growth over previous year terms of US$)
	2000-01	2,339	61	1,350	279	4,029	-
	2001-02	3,904	191	1,645	390	6,130	(+)52%
	2002-03	2,574	190	1,833	438	5,035	(-)18%
	2003-04	2,197	32	1,460	633	4,322	(-)14%
	2004-05	3,250	528	1,904	369	6,051	(+)40%
	2005-06	5,540	435	2,760	226	8,961	(+)48%
	2006-07	15,585	896	5,828	517	22,826	(+)155%
	2007-08	24,573	2,291	7,679	300	34,843	(+)53%
	2008-09	31,364	702	9,030	777	41,873	(+)20%
	2009-10	25,606	1,540	8,668	1,931	37,745	(-)10%
	2010-11	21,376	874	11,939	658	34,847	(-)08%

	2011-12	34,833	1,022	8,206	2,495	46,556	(+)34%
	2012-13	21,825	1,059	9,880	1,534	34,298	(-)26%
	2013-14	24,299	9 7 5	8,978	1,794	36,046	(+)5%
	2014-15	30,933	9 7 8	9,988	3,249	45,148	(+)25%
	2015-16	40,001	1,111	10,413	4,034	55,559	(+)23%
	2016-17	43,478	1,223	12,343	3,176	60,220	(+)8%
	2017-18	44,857	6 6 4	12,542	2,911	60,974	(+)1%
	2018-19	44,366	6 9 3	13,570	5,746	64,375	(+)6%
Cumulative Total (from April,2000		4,22,900	15,465	1,40,016	31,457	6,09,838	-
C		A	G	R			(+) 1 5 . 7 %

Source: RBI's Bulletin March, 2019

Figure: 1

Plotting the Trends of FDI Inflows in India

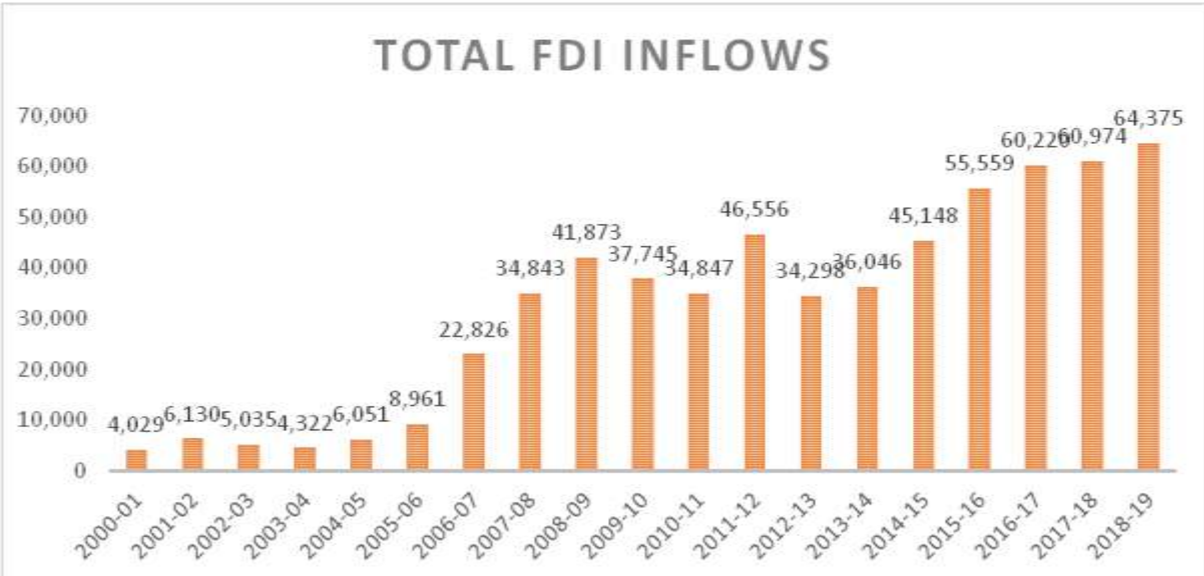

Chart- (a) (B).

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Total FDI Equity Inflows

(Excluding amount remitted through RBI's NRI Schemes)

S. No.	Financial Years 2000-01 To 2((April-March)	Amount of FDI Inflows		Percentage Growth O Previous Y
		In Rs. Crores	In US $ Million	
1	2000-01	10,733	2,463	-
2	2001-02	18,654	4,065	(+)65%
3	2002-03	12,871	2,705	(-)33%
4	2003-04	10,064	2,188	(-)19%
5	2004-05	14,653	3,219	(+)47%
6	2005-06	24,584	5,540	(+)72%
7	2006-07	56,390	12,492	(+)125%
8	2007-08	98,642	24,575	(+)97%
9	2008-09	1,42,829	31,396	(+)28%
10	2009-10	1,23,120	25,834	(-)18%
11	2010-11	97,320	21,383	(-)17%
12	2011-12	1,65,146	35,121	(+)64%
13	2012-13	1,21,907	22,423	(-)36%
14	2013-14	1,47,518	24,299	(+)8%
15	2014-15	1,81,682	29,737	(+)22%
16	2015-16	2,62,322	40,001	(+)35%
17	2016-17	2,91,696	43,478	(+)9%
18	2017-18	2,88,889	44,857	(+)3%
19	2018-19	3,09,867	44,366	(-)1%
Cumulative Total (from April,2000 to March,2019)		2,378,887	4,20,142	

Source: dipp.nic.in

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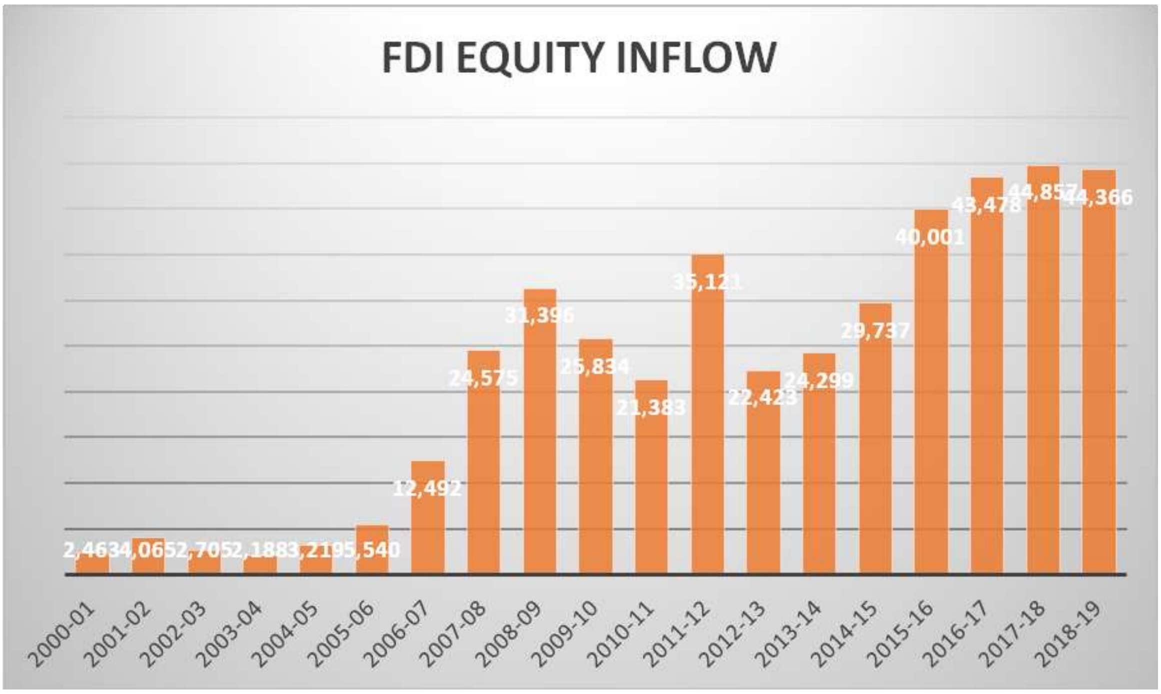
Figure: 2

Plotting the trends of FDI Equity Inflows in India



A comparison of cumulative inflows of FDI into India from 2000-01 to 2018-19 can be seen in Tables 1 (A) and 1 (B). Since 2000, the Indian government has made significant changes to FDI laws to guarantee that the country is becoming an increasingly attractive investment destination. India’s FDI has expanded considerably after the reforms of 1991, thanks in large part to these new sources of capital. As a result, FDI inflows have been fluctuating since these changes were implemented in 2000-01 to 2018-19, which is the time period covered in this research. FDI inflows to India have often decreased abruptly or gradually compared to the previous year, as in 2001-02 to 2003-04, when the Gujarat earthquakes and the terrorist attack on the World Trade Center (now the WTO) and the Indian Parliament (in 2001) were cited as reasons, or from 2008-09 to 2012-13 when the global economy declined following the US Subprime Crisis of 2008 and the Euro Crisis of 2012-13 were cited as causes. This resulted in an all-around decrease in investor confidence throughout the world.

The share of FDI inflows to India has risen more than once in recent years, both suddenly and gradually. Foreign direct investment grew by more than 100 percent in 2006-07 as a consequence of improvements made to the FDI policy in 2006, which simplified the FDI process, increased capital limits to 100 percent, and abolished several limitations. This had an especially significant effect on civil aviation. Both Destination India and the DIPP (Department of Industrial Policy Promotion) sites were redesigned during the 2007-08 fiscal year in order to promote more investment in the Indian economy. As a consequence of new government policies, programs like Make in India and Start Up India and the creation of smart cities and a business climate that was more investor-friendly, India saw a rise in FDI in 2014.The government's subsequent improvements to the FDI policy in 2017 were successful in removing multiple layers of bureaucracy and making bids for FDI more reasonable, fast, and favorable under official approval. Although India's FDI inflows have decreased in recent years, they reached a record low in 2018-19 as a result of sharp decreases in FDI to sectors such as telecommunication, electricity, and pharmaceuticals, according to the latest available data. Demonetization, GST implementation, a lack of consumer demand, the plight of Indian farmers, and the mounting NPA load may all have contributed to the current slowdown in India's economy as well. But it should be remembered that the current administration has eased 87 FDI regulations across 21 industries in the last three years. Even traditionally conservative industries like rail and defense have been opened up to foreign direct investment.

Overall, India has seen different patterns in FDI inflows in recent years, in keeping with the global economy. For India, FDI inflows have been expanding since 2012-13, with a 15.7 percent annual growth rate (or CAGR). FDI, in reality, is made up of equity capital, reinvested earnings, and other capital. Further, the money sent *via* RBI's NRI programs is included in this additional capital component.

According to Table 1(A), FDI inflows totaled US$ 609,838 million in 2018-19, a 6 percent increase over the previous financial year's total of US$ 599,838 million. However, Table 1 (B) reveals that the overall amount of FDI equity inflows (excluding the amount remitted through the RBI's NRI programs) decreased by 1 percent. India's overall FDI growth rate was decreased from 6 percent to 1 percent when the RBI's NRI programmes were ignored, which is consistent with this finding.

Table 2

Share of Top Investing Countries' FDI Equity Inflows (Financial Years)

Amount: Rupees in Crores (US$ in Millions)

Ranks	Country	Cumulative Inflows (April,00-March,19)	Percentage of Total Inflows (in terms of US $)
1.	Mauritius	7,38,156 (1,34,469)	32%
2.	Singapore	5,05,946 (82,998)	20%
3.	Japan	1,73,332 (30,274)	07%
4.	Netherlands	1,62,251 (27,352)	07%
5.	U.K.	1,40,370 (26,789)	06%
6.	U.S.A.	1,46,372 (25,556)	06%
7.	Germany	65,477 (11,708)	03%
8.	Cyprus	51,544 (9,869)	02%
9.	UAE	39,310 (6,652)	02%
10.	France	36,825 (6,643)	02%
Total FDI Inflows from All Countries*		2,378,886 (4,20,142)	-

Source: dipp.nic.in *Includes inflows under NRI Schemes of RBI.

Note: Percent of US$ & FDI flowed in exclusively via the automatic route of the Reserve Bank of India (RBI), FIPB/SIA, and purchase of existing shares.

Mauritius and Singapore are the top two nations investing in India during the previous 19 years, accounting for almost 52 percent of overall FDI inflows during that time period, as seen in the table above.

Table 3

Sectors Attracting Highest FDI Equity Inflows

Amount: Rupees in Crores (US$ in Millions)

	Sector	Cumulative Inflows (April,00-March,19)	Percentage of Total Inflows (in terms of US $)
	Service Sector	4,16,301 (74,149)	18%
	Computer Hardware & Software	2,21,756 (37,238)	09%
	Telecommunication	1,88,249 (32,826)	08%
	Construction Development (Township)	1,19,614 (25,046)	06%
	Trading	1,43,599 (23,021)	05%
	Automobile Industry	1,23,989 (21,387)	05%
	Chemicals (Other than Fertilizers)	91,062 (16,582)	04%
	Drugs and Pharmaceuticals	84,165 (15,983)	04%
	Construction (Infra- structure) Ac	93,873 (14,805)	04%
	Power	77,889 (14,316)	03%
Total FDI Inflows from All Countries		2,378,886 (4,20,142)	-

*Source:*dipp.nic.in

More than 18 percent of FDI in our country has come from these nations during the last 19 years, followed by the computer hardware and software and telecommunications industries, each contributing for 9 percent and 8 percentage points of the overall investment.

Service industries in India have grown at a faster rate than any other in the country for a long period of time. Services such as commerce, banking, hotels, insurance, transportation, and communication, as well as real estate and commercial services, account for more than 60 percent of India's gross domestic product (GDP).

6. CONCLUSION

Trends are nothing more than a comparison of numbers that may or may not be the same as the original figures. Only the percentage rise over the previous year is shown, but foreign direct investment continues to flow into the economy. Economic, institutional and political issues may all have a role in the fluctuation of foreign direct investment inflow patterns. Inflation, government control, political stability, tax policies, and the value of a country's currency are just a few of the many elements that go into these calculations.

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