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AN ANALYSIS OF INDIA'S FOREIGN DIRECT INVESTMENT AND FOREIGN PORTFOLIO INVESTMENT FOR THE PERIOD 2019-2022

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Abstract

Foreign Direct Investment refers to investments made by an individual or firm in a business located abroad. It involves building or purchasing businesses and their associated infrastructure. Components of FDI include equity-capital, re-invested earnings, and intra-company loans. Foreign Portfolio Investments involve investing in overseas financial assets such as securities, stocks, bonds etc. Both are major sources of investment and investment financing which drive economic growth of a country. FPIs are short-term in nature and investors expect quick returns on them. FDI on the other hand requires long-term and direct commitments for profits to be generated.

India has laid particular emphasis on both of these parameters post 1991 and the LPG reforms in an effort to replace the inward-looking strategy with robust investments from the rest of the world. We realised the enhancement of productivity, skills and technology associated with foreign investments as a result of which various steps have been taken to promote them. Make in India was the first step of the current Narendra-Modi led BJP government in this direction with other initiatives following and backing it.

This paper will analyse the trends of the past three years of how well has India fared in relation to these two parameters. The steps taken by the government of India to promote FDI and FPI will be analysed and evaluated in terms of how effective they have been in achieving their goals. An analysis based on sectors, industries and regions will be undertaken for the two investments. For FDI we will emphasize on the Manufacturing and Services sectors as they are the two major sectors which attract investments as investments in agriculture are low accruing to the nature of the primary sector.

Keywords:*Tourist, Tourism, Development, Rural Tourism*

Introduction:

Over the past three years, India has been recording successive all-time high Foreign Direct Investments despite the pandemic disrupting the global economy, which has been supplemented by the Russia-Ukraine war. This shows the resilience the Indian economy has shown and the positive sentiment among investors regarding India as an investment destination. This can be attributed to the positive performance of the Indian economy which has overtaken the United Kingdom to become the world's fifth largest economy in terms of GDP size and has been constantly achieving a positive growth rate between seven to nine percent every year. The liberal democratic political framework of India and its governance makes it an attractive destination for foreign investors. Especially, in the current post-covid scenario where the world and particularly the West is looking for alternatives to China providing India with an option to harness this opportunity of becoming a global manufacturing hub by utilising its potential. The presence of skilled human capital and abundant labour at low rates explains to an extent India's ability to channelize investments despite the fragile global situation and disrupted supply chains. Foreign investors want to tap the Indian market which has huge potential in terms of demand, consumer population and spending capacity.

Foreign Portfolio investments not just in India but all across the world increased during the pandemic. As monetary policies were loosened for stimulating growth by various economies and markets were being opened up. This led to positive inflows increasing and new entrants in financial markets till the time central banks all across the world adopted tightening measures with USA taking the lead. Since the Federal Reserve of the United States of America has hiked interest rates and the world economy is feared to go into recession foreign investors have been selling their financial assets and moving towards the USA for parking their funds. Recently, as a result foreign investors have been net sellers in the Indian markets in response to the hiked interest rates for curbing inflation. This deficit has been matched by robust domestic investments stabilising the Indian financial markets.

FDI 2019-2022- A sector wise and regional analysis

In 2019-20 India received FDI inflows amounting to $74.39 bn which was approximately a twenty percent growth from the previous year indicating optimistic performance for the country after a year of negative one percent growth in 2018-19. Gross FDI equity inflows were $49.97 bn recording a 13% percent year on year growth. The services sector garnered the maximum investments which were 69.8% of the gross FDI equity inflows. Among the services sector Financial, Banking, Insurance, Non-Financial / Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis and the Computer Software and Hardware sub-sectors were the best performers whose shares were respectively 22.5% and 22% of the gross FDI equity inflows into the service sector. Share of the manufacturing sector in the FDI equity inflows was approximately 30% with the construction and automobile industries being the top shareholders. Singapore and Mauritius were the top two sources of FDI accounting for 30% and 21% of the total inflows. In terms of recipients Maharashtra and garnered the highest share at 30% followed by Karnataka and Delhi with 18% and 17% respectively. According to the World Investment report 2020 by United Nations Conference on Trade and Development India was the ninth largest recipient of FDI in the world in 2019, driving FDI growth in South Asia.

Coming to 2020-21, India attracted a total FDI inflow of $81.72 bn, which was 10% higher than the previous financial year despite being a pandemic-hit year. FDI equity inflow grew to $59.94 bn by 19% in comparison to 2019-20. The share of the services sector remained stagnant and fell marginally to 66.3% of the gross FDI equity inflows. FDI equity inflows grew into the services sector by 13.4%. This growth can largely be attributed to the 240% increase in inflows in the computer software and hardware sub-sector. The pandemic fuelled investments into the digital sector with the digitization of the world economy being hastened by the virus. The reduction in FDI faced by all other services because of the pandemic was compensated and offset by the computer sector leading to net positive growth. Particularly, in the digital sector countries were looking for alternatives to China after the pandemic leading to a benefit for India which proved to be the next best destination in the same proximity of South Asia. In the manufacturing sector India received $12.09 bn worth of FDI Equity inflow which was approximately 20% of the total inflows. Singapore remained the top investor with Mauritius being displaced by USA at the second position with their shares in investment being 29% and 23% respectively. Gujarat became the top recipient of FDI followed by Maharashtra with their shares in total FDI equity inflows being 37% and 27% respectively. India improved its rank in the World Investment report 2021 by one position, attaining the 8th rank owing to the large investments and mergers and acquisitions in the digital, information and communication technology space. The pandemic reduced space for smaller players to survive and we saw an increased pace of mergers and acquisitions and a number of big companies making huge gains particularly in the IT sector. A prominent example of FDI in the digital sector in 2020 was the $5.7 bn investment made by Facebook in Reliance Jio for a stake of 9.99%. As can be expected in 2020-21 the pharmaceutical sector witnessed a sudden growth spurt in FDI because of the demand for therapeutics and vaccines which the virus produced.

Post covid i.e., during the recovery period 2021-22 India received an annual FDI inflow of $83.57 bn which translates into an annual growth of 2.3%. FDI Equity inflows in manufacturing rose by 76% to $21 bn. This rise can be attributed to the recovery and normalization of the manufacturing sector after suffering during the pandemic. Computer Software and Hardware sector was the top recipient channelling 25% of the equity inflows. Singapore and USA remained apex investors with 27% and

18% shares respectively. As per the World Investment Report 2022 India ranks 7th among the top 20 host economies in terms of FDI inflows.

FDI Inflow during March 2020 to March 2022 was $171.84 bn in comparison to $141.10 bn inflows during Feb 2018 to Feb 2020 indicating a 23% rise in FDI inflows post-covid in comparison to the pre-covid period. The overall trend over the past few years for FDI has been positive despite the volatility prevalent in the world economy, the measures which have contributed to this achievement will be discussed in the following sections. In terms of the share of FDI between the manufacturing and the services sector while the size of FDI in both the sectors has been on the rise the distribution has been disproportionate. The share of the manufacturing sector has been falling, while that of the services sector is expanding. This trajectory is similar to the growth trajectory of the Indian economy which shifted from being predominantly agrarian to being dominated by the services sector because of its peculiar nature.

FPI 2019-2022

In 2019-20 investors were net sellers in the Indian FPI market with net investments being negative three billion dollars. In the next fiscal as the pandemic struck both gross and net investments witness a significant growth with net investments rising to positive 36 million dollars. The reason behind this was the loosening of monetary policy to stimulate investments and growth in the economy. From thereon, since the next fiscal year 2021-22 investors started disposing off Indian financial holdings as the US Federal Reserve and central banks all across the world started hiking interest rates in response to the rising inflation because of the disrupted supply chains and the Russia-Ukraine war. FPI inflow in India since then has plunged. According to recent data in September 2022 foreign investors took out 7,624 crore rupees from equities in India reiterating and reaffirming this trend as the world economy faces recessionary fears and the rupee weakens.

Measures taken to promote FDI and FPI

Make in India 2014 was one of the first steps undertaken by the current government to facilitate and enhance investments by improving the easing of doing business in India, incentivising companies to manufacture, assemble and develop products in India through dedicated investments into manufacturing. As a result of this initiative, supplemented by other measures India’s rank in ease of doing business according to the World Bank has improved from 142 in 2014 to 63 in 2022.

PLI (Production linked incentive) schemes in the automobile, semiconductor, telecommunications and many other industries have been initiated to boost investments through financial incentives. SEZs (Special Economic Zones) such as the GIFT (Gujarat International Finance-Tec) Cityin Gandhinagar, Gujarat have been developed to attract MNCs for setting up their units in India. This particular project targets the Finance and Information Technology sector with respect to attracting investments.

In the defence sector, which the government is looking to develop in terms of manufacturing, FDI has been increased to 74% through the automatic route and 100% through the government route. Schemes such as the PM Gati Shakti, National Logistics Policy, single window clearance are aimed at increasing inflows in the coming years.

FEMA (Foreign Exchange Management Act) has been amended to allow 20% FDI in LIC through automatic route. In the telecom sector 100% FDI has been allowed via the automatic route against the earlier 49%. On the FPI front an advisory committee has been formed by the Securities and Exchange Board of India with the aim of promoting foreign portfolio investment. The government has made efforts to reduce the time required for FPIs to register in India and introduce a single-window clearance for them. The RBI has relaxed investment norms for FPI in government bonds.

Critical Analysis

While the overall FDI inflows into India have been increasing, green-field investments into India have plunged. Green-field investments are a type of foreign direct investment (FDI) in which a parent company creates a subsidiary in a different country, building its new (green) facilities from the ground up. Green-field investments in India were $30 bn in 2019, $ 24 bn in 2020 and $15.7 bn in 2021 providing a different flipside picture of FDI in India. India is pressing for more and more FDI in the manufacturing sector but in the recent past years Make in India has been receiving less than half of the FDI inflows indicating that the 25 Make in India sectors might not be the priority sectors for the rest of the world. India cannot take the path of manufacturing-based growth similar to China, it needs to leverage its potential in the services sector and focus on services-led growth. India has been trying to attract firms shifting their manufacturing sectors from China as the costs of doing business rise there, but India has not been the next immediate choice with other centres coming up such as Vietnam.

Conclusion

In terms of FDI, India's performance in the previous years has been appreciable. It provides an optimistic picture for our external sector in the coming year. But complacency can cost us and we need to constantly review our FDI policy and look at improving aspects of our economy wherever possible. Attracting FDI cannot be the only aim but materialising and successful completion of projects should be the next step where we must emphasize upon in which we have lacked in the past. We need to capitalize upon our strengths in the IT and health sectors and not only push for growth in the manufacturing sector vying for a growth trajectory which the west and China had. Investments in the education sector must prepare the youth for jobs which will become available in the services sector rather than the manufacturing sector based on our potential and strengths. Stabilising our policy frameworks and improving our labour markets should be the next steps after achieving streamlining and digitization of procedures and clearances. On the FPI front we can expect as the global macroeconomic situation stabilizes the investments will normalize and grow positively as India is being viewed with a positive investor sentiment based on its growth potential in the following years. We cannot undermine the role FDI and FPI will play in achieving our dreams of becoming a five trillion-dollar economy hence, our emphasis on maintaining robust foreign investments would become essential to that end.

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