



CAPITAL FLOW TRENDS AND PATTERNS IN INDIA

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1. Introduction

India has been one of the world's leading recipients of foreign direct investment (FDI) in recent years. Despite the pandemic, India has progressively improved and is regarded as a key destination for foreign investors. During the fiscal year of 2020-21, total foreign direct investment increased by roughly 9.8 percent. In the past year, India was the fifth largest recipient of foreign direct investment. Foreign direct investment is a significant factor in the rise of both developed and developing nations. The average net inflow and economic performance of developing countries have increased. This study examines the trends and patterns of India's capital flows during the study period.

Capital inflows, especially short-term capital flows, maybe reversed at a short notice, possibly leading to a financial crisis. Almost all the studies on currency crisis identified the presence of short-term capital, what is called as-hot money variety, which are volatile in nature, as the main factor responsible for increase in financial fragility and eventually economic crisis in the East Asian and Latin American countries in the late 1990s. The volatility of capital flows is often a symptom of underlying global factors. Financial or monetary shocks in investor countries, sharp changes in expectations, contagion etc. over which the recipient country has little control, are known to destabilize capital movements in these economies. Domestic factors such as macroeconomic conditions, loss of investor confidence and lack of developed financial systems are also known to contribute to volatility of the capital flows. The rise in volatility of capital flows has been more prominent in India in the recent years since 2003-04 with the net capital flows jumping to a level of 9% of GDP in 2007-08 and then slumping to a level of 0.8 % of GDP in the very next year 2008-09 in the backdrop of the global financial crises.

Foreign Direct Investment (FDI) is considered as a major source of non-debt financial resource for the economic development. FDI flows into India have grown consistently since liberalization and are an important component of foreign capital since FDI infuses long term sustainable capital in the economy and contributes towards technology transfer, development of strategic sectors, greater innovation, competition and employment creation amongst other benefits. Therefore, it is the intent and objective of the Government of India to attract and promote FDI in order to supplement domestic capital, technology and skills for accelerated economic growth and development. FDI, as distinguished from Foreign Portfolio Investment, has the connotation of establishing a 'lasting interest' in an enterprise that is resident in an economy other than that of the investor.

2. Data sources and Methodology

The study uses yearly observations from 1992 to 2020. The study uses data on FDI inflows, FDI outflows. The required data were collected from Database on Indian Economy published by Reserve Bank of India. The study employed simple growth rates and compound annual growth rates.

Table1 shows the year-to-year foreign direct investment inflows. The table clearly shows that foreign direct investment increased from 315 million US dollars in 1992 to 4,029 million US dollars in 2000. It has increased more than 30 times in the last ten years. During this time, the Indian government has taken the lead in bringing foreign direct investment to India.

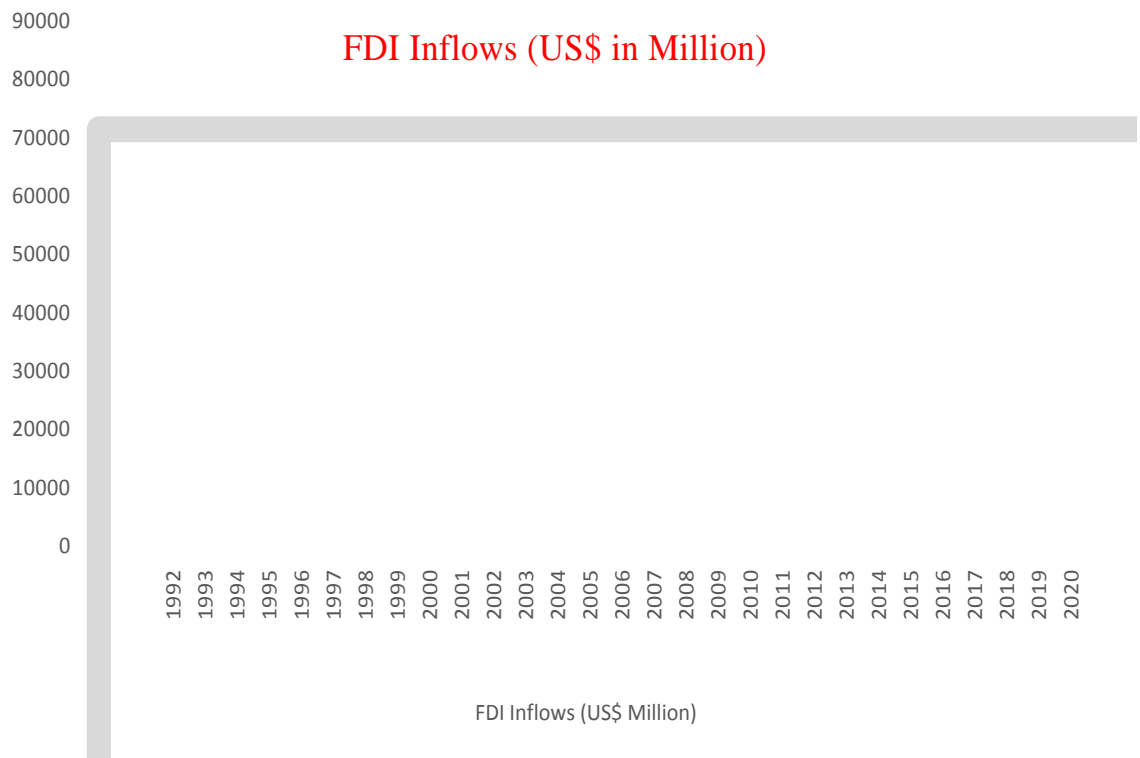
Table 1: Foreign Direct Investment Inflows during the period of 1992-2020

<i>Year</i>	<i>FDI Inflows (US\$ Million)</i>	<i>Growth in %</i>	<i>Year</i>	<i>FDI Inflows (US\$ Million)</i>	<i>Growth in %</i>
1992	315	--	2006	22,826	154.726
1993	586	86.032	2007	34,843	52.646
1994	1,314	124.232	2008	41,873	20.176
1995	2,144	63.166	2009	37,745	-9.858
1996	2,821	31.576	2010	34,847	-7.678
1997	3,557	26.090	2011	46,556	33.601
1998	2,462	-30.784	2012	34,298	-26.330
1999	2,155	-12.470	2013	36,046	5.097
2000	4,029	86.961	2014	45,148	25.251
2001	6,130	52.147	2015	55,559	23.060
2002	5,035	-17.863	2016	60,220	8.389
2003	4,322	-14.161	2017	60,974	1.252
2004	6,051	40.005	2018	62,001	1.684
2005	8,961	48.091	2019	74,390	19.982
			2020	81,722	9.856
CAGR: 1992 TO 2005 – (0.293748), 2006 TO 2020 – (0.09538) and 1992 to 2020 (0.219594).					

However, the foreign direct investment was positive till the end of 1997, but thereafter FDI was negative in the year of 1998, 1999, 2002 and 2003 and positive remaining years. The growth rate in foreign direct investment was highest in 1992 and foreign direct investment (FDI) decreases highest growth rate was in 2002, as compared to their respective years.rate (CAGR) during the period from 1992 to 2005 was 0.293748, 2006 to 2020 was 0.09538. the overall compound annual growth rate for the span of 1992 to 2020 was 0.219594.

The compound annual growth rate was 0.451 during the period from 1992-2000 and 1990to 2005 CAGR was 0.352. The results emphasizes that 2009, 2010 and 2012 was negative growth rate of foreign direct investment and remaining years was positive. The Compound annual growth

Graph 1: Trend of Foreign Direct Investment During the Study Period.



The above trend graph of foreign direct investment shows that there is an increasing trend of foreign direct investment during the span of 1992 to 2020.

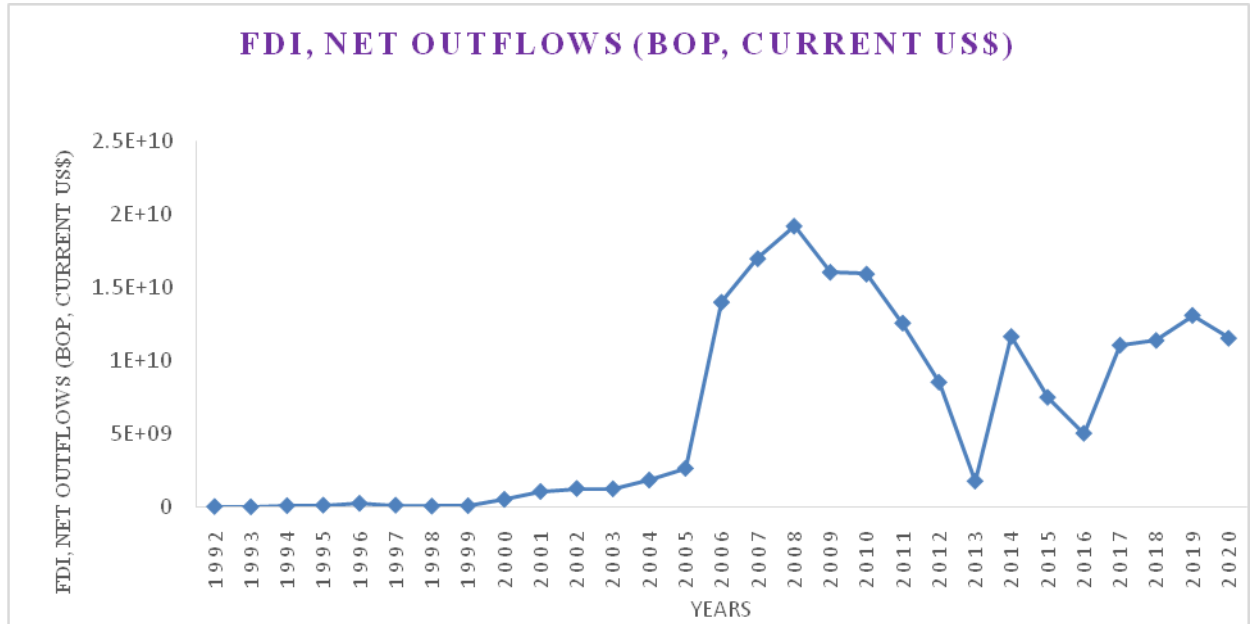
“FDI net outflows are the value of outward direct investment made by the residents of the reporting economy to external economies, including reinvested earnings and intra-company loans, net of receipts from the repatriation of capital and repayment of loans. These series are expressed as shares of GDP”.

Table: 2 Foreign direct investment, net outflows (BoP, current US\$)

Year	FDI Inflows (US\$ Million)	Growth in %	Year	FDI Inflows (US\$ Million)	Growth in %
1992	24000000		2007	17026111929	154.726
1993	350640.5619	86.032	2008	19256527246	52.646
1994	82583302.7	124.232	2009	16095583747	20.176
1995	117189079.2	63.166	2010	15968099288	-9.858
1996	239324706.5	31.576	2011	12607994610	-7.678
1997	112918990.4	26.090	2012	8553237671	33.601
1998	47593027.49	-30.784	2013	1764948800	-26.330
1999	79357457.32	-12.470	2014	11686480933	5.097
2000	509532974.7	86.961	2015	7514275639	25.251
2001	1054132218	52.147	2016	5047292606	23.060
2002	1261071115	-17.863	2017	11090150305	8.389
2003	1237846245	-14.161	2018	11417789536	1.252
2004	1837062923	40.005	2019	13140702032	1.684
2005	2640754960	48.091	2020	11569451354	19.982
2006	14036833332				
CAGR: 1992 TO 2005 – (0.293748), 2006 TO 2020 – (0.09538) and 1992 to 2020 (0.219594).					

The results divulge that during the period from 1998, 1999, 2002, 2003, 2010, 2011, and 2013 was negative growth rate of foreign direct investment outflows and remaining years was positive. The Compound annual growth rate (CAGR) for the period from 1992 to 2006 was 0.576329, 2007 to 2020 was (-0.02928) negative and the overall CAGR was for the span of 1992 to 2020 was 0.219594.

Graph: 2 Foreign direct investment, net outflows (BoP, current US\$)



The above trend graph of foreign direct investment outflows shows that there is an increasing and decreasing trend of foreign direct investment during 1992 to 2020.

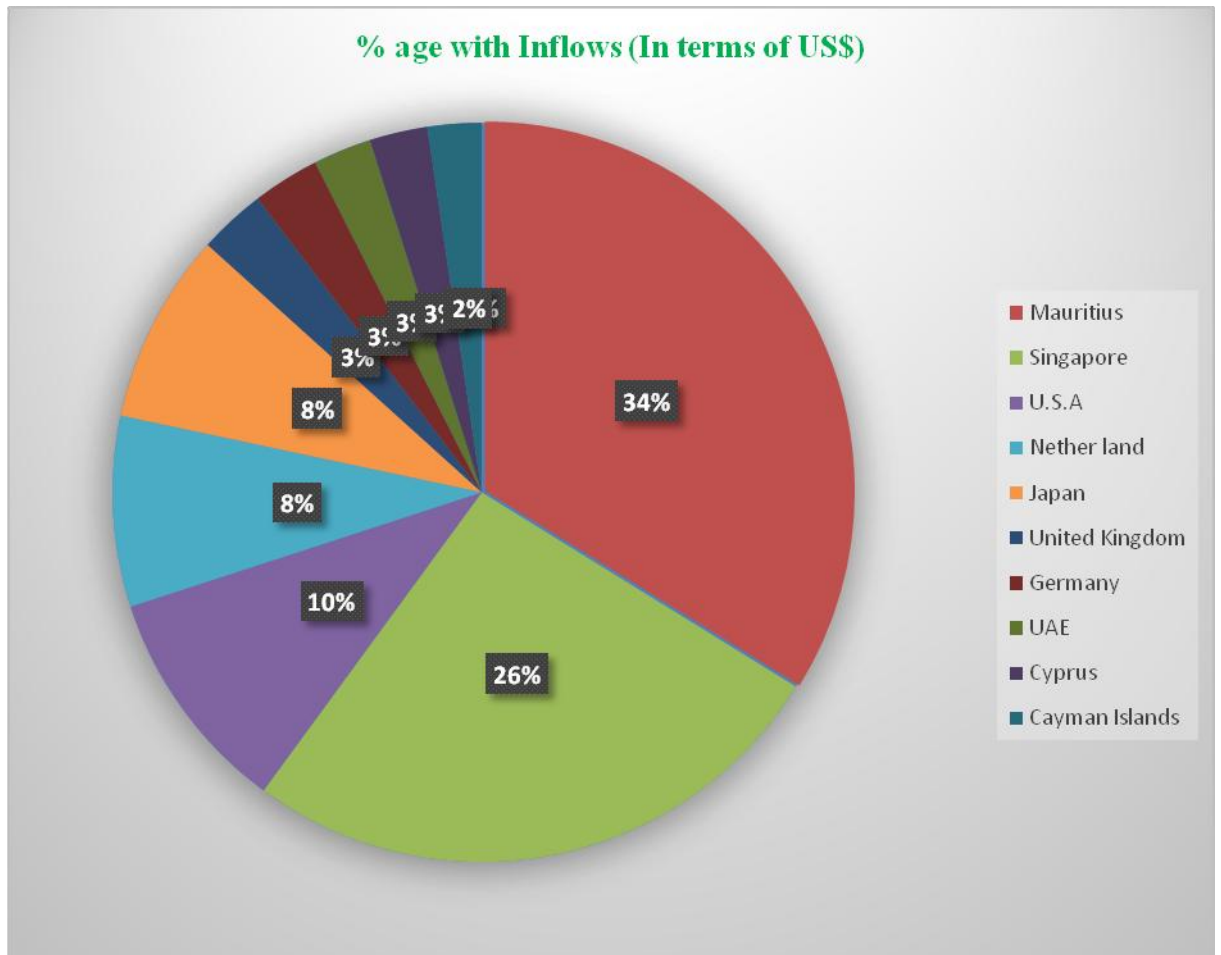
Table 3. Country Wise FDI Equity Inflows Amount in Rupees Crores (in US\$ Million)

S.No	Name of the Country	Amount of Feign Direct Investment Inflows		%age with Inflows
		(In Rs Crore)	In US\$ million	(In terms of US\$)
1	Mauritius	837,601.60	148,349.66	28.01
2	Singapore	738,788.95	115,089.11	21.73
3	USA	278,721.27	43,602.18	8.23
4	Nether land	229,152.01	36,641.04	6.92
5	Japan	229,152.01	36,641.04	6.92
6	United Kingdom	165,636.67	12,862.56	2.43
7	Germany	73,854.09	12,862.56	2.43
8	UAE	72,944.36	11,193.14	2.11
9	Cyprus	60,832.66	11,134.12	2.10
10	Cayman Islands	70,627.17	10,334.95	1.95

The top ten country wise foreign direct investment equity inflows in India were reported in Table 3. From the table it is clearly observed that Mauritius has investigating most in various sectors of India among the top ten investing countries during the period of

2000 to 2020. Out of the top ten countries, Mauritius contributing 28 percent, Singapore 21.73 per cent, United States of America 8.23 per cent, Nederland contributing 6.92 per cent. The countries like UAE, Cyprus and Cayman Islands occupying 8th, 9th and 10th position and these countries were investing around 2 percent only.

Pie diagram 1. Country Wise Foreign Direct Investment Equity Inflows During the Period.



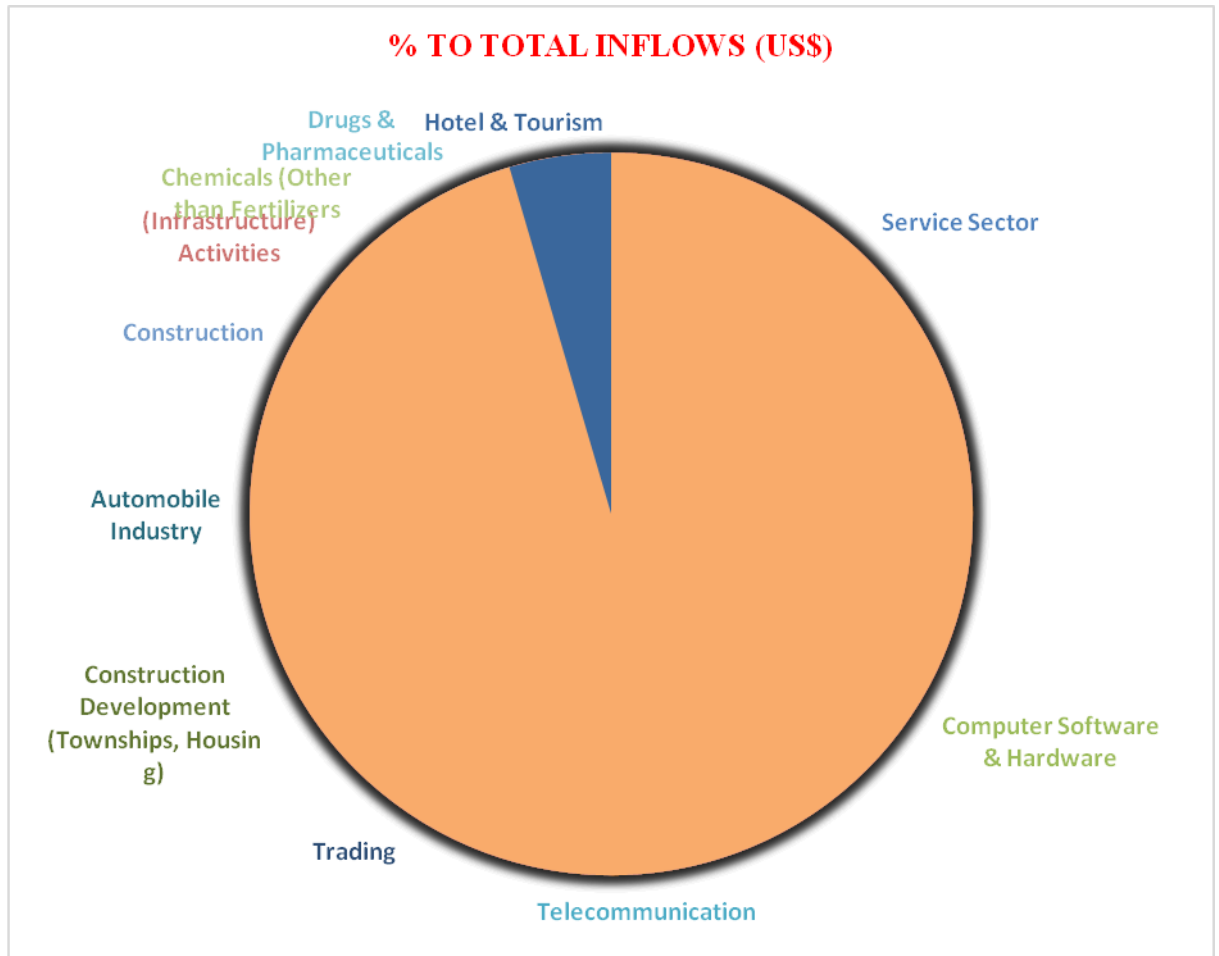
From the pie diagram, it is clearly shows that Mauritius, Singapore, U.S.A, Nether land and Japan were top five foreign direct investment inflow countries in India. UAE 8th place, Cyprus 9th and Cayman Islands 10th FDI inflows attracting countries in the country.

Table 4. Sectors Attracting Highest FDI Equity Inflows:Amount in Rupees Crores (in US\$ Million)

Ranks	Sector	2018	2019	2020	Cumulative Inflows	% to Total Inflows (US\$)
1	Service Sector	63,909 (9,158)	55,429 (7,854)	37,542 (5,060)	509,272 (87,063)	16%
2	Computer Software & Hardware	45,297 (6,415)	54,250 (7,763)	194,291 (26,145)	470,298 (71,056)	13%
3	Telecommunication	18,337 (2,668)	30,940 (4,445)	2,884 (392)	222,073 (37,663)	7%
4	Trading	30,963 (4,462)	32,406 (4,574)	19,349 (2,608)	195,353 (30,203)	6%
5	Construction Development (Townships, Housing)	1,503 (213)	4350 (617)	3,117 (422)	127,081 (26,084)	5%
6	Automobile Industry	18,309 (2,623)	19,753 (2,824)	12,115 (1,637)	155,857 (25,848)	5%
7	Construction (Infrastructure) Activities	15,927 (2,258)	14,510 (2,042)	58,240 (7,875)	166,622 (24,721)	5%
8	Chemicals (Other than Fertilizers)	13,685 (1,981)	7,491 (1,058)	6,300 (847)	104,855 (18,487)	3%
9	Drugs & Pharmaceuticals	1,842 (266)	3,650 (518)	11,015 (1,490)	98,830 (17,991)	3%
10	Hotel & Tourism	7,590 (1,076)	21,060 (2,938)	2,761 (369)	94,540 (15,658)	3%

Table-4 shows that the attracting highest FDI equity inflows for the three years from 2018 to 2020. Service sector and computer and hardware sector are attracting the lion share of FDI Inflows 16 percent and 13 percent. The table also revealed that tractive sectors chemical and fertilizers, drugs and pharmaceuticals and also hotel and tourism i.e., 3% respectively.

Pie diagram 2. Top Ten Sectors Attracting Highest FDI Equity Inflows



The pie diagram 3.5 divulges that the top ten sectors attracting highest investment inflows during the period of 2018 to 2020. Here, the service sector attracting highest foreign direct investment inflows (16 %) in India. The second sector was Computer Software & Hardware (13%), Telecommunication sector (7%), Trading (6%) construction Development (5%), Automobile Industry (5%), Drugs and Pharmaceuticals and Hotel Tourism sectors (3%) respectively.

4. Conclusion

The main objective of the paper is to study the trends and patters of capital flows in India during the span of 1992 to 2020. India is one of the top receivers of foreign direct investment (FDI) across the world over the last periods. The India witnessed around 9.8 percent rise in total foreign direct investment during the 2020-21 financial year. The study concludes that there is significant trends and patterns of capital flows in India during the study period.



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