



FOREIGN DIRECT INVESTMENT IN INDIA – AN ANALYTICAL STUDY

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ABSTRACT Foreign Direct Investment (FDI) is essential for economic growth, modernization, and employment creation. It also promotes technology transfer, the development of human capital, entrepreneurship, and resource management efficiency. As a result, developing nations like India have tried to draw in more FDI. In recent years, the government has taken steps to relax FDI regulations in a number of sectors, including PSUs, oil refineries, communications, and defence. The objectives of the paper are to know about the trends and pattern of FDI inflow, and ascertain the sector wise distribution of FDI inflows in India. To achieve the objectives, secondary data is collected. From the analysis, it is found that there have been a variety of FDI influx trends into India in recent years. The study also shows that, across the study period, the service sector has drawn the most foreign direct investment (FDI) from different countries out of all the sectors.

KEYWORDS : FDI, FDI Inflow, Foreign Direct Investment, India, Sectors, Trends.

INTRODUCTION

India has experienced a long-term rising trend in FDI. India is becoming a potential alternative investment location for FDI. A foreign direct investment (FDI) is an investment made by a company based in another nation that takes a controlling interest in a company in another country. It comprises "acquisitions and mergers, the construction of new facilities, the reinvestment of revenues from international activities, and intra-company loans." The balance of payments' equity, long-term, and short-term capital components are added to form FDI. Participation in management, joint ventures, the transfer of technology, and experience are typical components of FDI. The cumulative net (i.e., outbound minus inbound) FDI during any particular period is known as the stock of FDI. Investment made through the purchase of shares is not considered direct investment if the investor ends up owning less than 10% of the company's shares as a result of the transaction. India's economy relies heavily on foreign direct investment as a source of funding. To take advantage of lower labour and India's evolving economic environment, foreign companies engage directly in rapidly expanding private, reputable businesses. In response to the 1991 financial crisis, India began its economic liberalisation process. Since that time, FDI has consistently expanded in India, creating more than one crore (10 million) jobs. Indian companies are now protected from "opportunistic takeovers/acquisitions due to the current COVID-19 pandemic," according to a change in the country's foreign direct investment (FDI) policy that took effect on April 17, 2020, according to the Department for Promotion of Industry and Internal Trade. The new FDI policy guarantees that all FDI will now be subject to inspection by the Ministry of Commerce and Industry even though it does not restrict markets. The overall amount of FDI inflows was US\$ 81,973 million, an increase of 10% over the prior fiscal year. The World Investment Report 2022 states that India rose from ninth place in 2019 to eighth place among the top FDI recipients worldwide in 2020. Information and technology, communications, and the car were the three industries that attracted the greatest FDI in FY22.

From 2000-01 to 2021-22, India's FDI inflows have surged 20 times. The Department for Promotion of Industry and Internal Trade (DPIIT) estimates that between April 2000 and June 2022, India received US\$ 871.01 billion in cumulative FDI, mostly as a result of the government's initiatives to make doing business easier and relax FDI regulations.



Source: <https://www.ibef.org/economy/foreign-direct-investment>

OBJECTIVES OF THE PAPER

1. To know about the trends and patterns of FDI inflows.
2. To know about the sector wise distribution of FDI inflows in India.

DATA COLLECTION

Secondary data is collected to achieve the objectives.

DATA ANALYSIS AND INTERPRETATION

Table 1: Total FDI Inflow (from April, 2000 to September, 2022)

Cumulative Amount of FDI Inflow (Equity inflow + 'Re-invested earnings' + 'Other capital')		USD 8,87,762 Million
Cumulative Amount of FDI Equity Inflow (excluding, amount remitted through RBI's NRI Schemes)	INR 38,21,824 Crore	USD 6,15,317 Million

Source: https://dpiit.gov.in/sites/default/files/FDI_Factsheet_June_2022.pdf

Table 1 shows the amount of FDI inflows from April, 2000 to September 2022. Cumulative amount of inflows are 8, 87,762 in US \$ million. Other than this, cumulative FDI equity inflows which excludes amount remitted through RBI's-NRI schemes are 38,21,824 in Crore and 6,15,317 in US \$ million.

Table 2: FDI Inflow during Second Quarter of Financial Year 2022-23 (July, 2022 to September, 2022)

Total FDI Inflow Into India (Equity inflow + 'Re-invested earnings' + 'Other capital') (as per RBI's Monthly bulletins)		USD 16,607 Million
FDI Equity Inflow	INR. 82,333 Crore	USD 10,321 Million

Source: https://dpiit.gov.in/sites/default/files/FDI_Factsheet_June_2022.pdf

From the above table 2, it is cleared that the sum of equity inflows, reinvested earnings and other capital. Total amount of inflows are 16,607 in US \$ million and the FDI equity inflows amounted 82,333 in Crore and 10,321 in US \$ million.

Table 3: FDI Equity Inflow (Month-Wise) During the Financial Year 2022-23

Financial Year 2022-23 (April – September)		Amount of FDI Equity Inflow	
		(In INR Crore)	(In USDmn)
1	April, 2022	49,200	6,459
2	May, 2022	47,563	6,152
3	June, 2022	31,060	3,978
4	July, 2022	39,569	4,971
5	August, 2022	18,906	2,376
6	September, 2022	23,858	2,974
2022-23 (from April, 2022 to September, 2022) #		2,10,156	26,910

2021-22 (from April, 2021 to September, 2021) #	2,29,929	31,153	
%age growth over last year	-9%	-14%	

Source: https://dpiit.gov.in/sites/default/files/FDI_Factsheet_June_2022.pdf

Note: i) Country & Sector specific analysis is available from the year 2000 onwards, as Remittance-wise details are provided by RBI from April, 2000 onwards only. # Figures are provisional, subject to reconciliation with RBI, Mumbai.

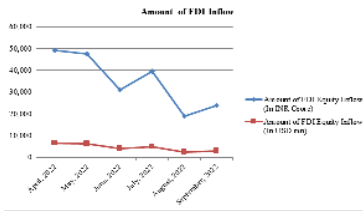


Figure 1: Amount of FDI Inflow

The above Table 3 shows the amount of FDI inflows during Financial Year from April, 2022 to September, 2022. The highest FDI inflows in the country is in the month of April 2022 i.e. 49,200 in Rs Crore and 6,459 in US \$ mn. Followed by May, 2022 and July, 2022 with inflows 47,563 in Rs. Crore (6,152 in US\$ mn) and 39,569 in Rs. Crore (4,971 in US\$ mn) respectively. It can also be observed that there is 9% decline in FDI over last year in Rs. Crore and in terms of US\$ there is also a decline of 14% in comparison to last year.

Table 4: Sectors Attracting Highest FDI Equity Inflow

Ranks	Sector	Amt. in Rupees Crores/ Amt. in USD Million	2020-21 (April – March)	2021-22 (April – March)	2022-23 (April – September)	Cumulative inflow (April, 00 – September, 22)	% age to total inflow (In terms of USD)
1	SERVICES SECTOR **	Rupees Crores	37,542	53,165	32,460	5,94,897	16%
		USD Million	5,060	7,131	4,162	98,356	
2	COMPUTER SOFTWARE & HARDWARE	Rupees Crores	1,94,291	1,07,762	49,131	6,27,190	15%
		USD Million	26,145	14,461	6,282	91,799	
3	TELECOMMUNICATIONS	Rupees Crores	2,884	4,980	5,314	2,32,367	6%
		USD Million	392	668	694	39,025	
4	TRADING	Rupees Crores	19,349	33,779	25,620	2,54,752	6%
		USD Million	2,608	4,538	3,280	38,021	
5	AUTOMOBILE INDUSTRY	Rupees Crores	12,115	51,624	7,204	2,14,685	5%
		USD Million	1,637	6,994	932	33,774	
6	CONSTRUCTION (INFRASTRUCTURE) ACTIVITIES	Rupees Crores	58,240	24,178	7,731	1,98,532	5%
		USD Million	7,875	3,248	990	28,959	
7	CONSTRUCTION DEVELOPMENT: Townships, housing, built-up infrastructure	Rupees Crores	3,117	932	223	1,28,235	4%
		USD Million	422	125	28	26,238	
8	CHEMICALS (OTHER THAN FERTILIZEIN	Rupees Crores	6,300	7,202	10,200	1,22,257	3%
		USD Million	847	966	1,307	20,759	

9	DRUGS & PHARMACEUTICALS	Rupees Crores	11,015	10,552	5,453	1,14,835	3%
		USD Million	1,490	1,414	699	20,104	
10	METALLURGICAL INDUSTRIES	Rupees Crores	10,002	16,783	619	1,01,999	3%
		USD Million	1,340	2,272	79	17,094	

Source: https://dpiit.gov.in/sites/default/files/FDI_Factsheet_June_2022.pdf

Note:(I)** Services sector includes Financial, Banking, Insurance, Non-Financial / Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis, Other

- (ii) Cumulative Sector- wise FDI equity inflow (from April, 2000 to September, 2022) is at – Annex-‘B’.
- (iii) FDI Sectoral data has been revaluated / reconciled in line with the RBI, which reflects minor changes in the FDI figures (increase/decrease) as compared to the earlier published sectoral data.

Figures are provisional.

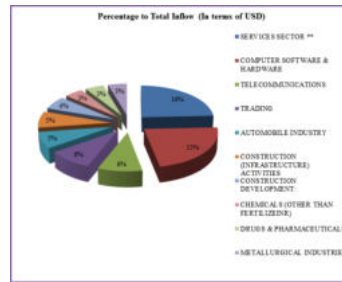


Figure 2: Percentage to Total Inflow (In terms of USD)

The above Table and graph depicts the sector in India receiving the most FDI equity inflow. It is evident that the service sector has the biggest FDI equity inflow at 16%, followed by the computer software and hardware, telecommunication, trading, automobile industry, and construction sectors, which have respective FDI equity inflows of 15%, 6%, 6%, 5%, and 5%. The least amount of FDI is attracted by the metallurgical industries, which only draw 3% of FDI. Other sectors include construction development carry 4%, chemicals and power, drugs & pharmaceuticals, and each carry 3% FDI. Both financial and non-financial services are a part of the service industry.

CONCLUSION

India has created a number of programmes and policies that have aided in increasing FDI. These programmes have stimulated FDI investment in India, particularly in emerging industries like defence manufacture, real estate, and research and development. Recently, India has become a prominent global centre for FDI. One of the top three international locations for FDI was India, where nearly 80% of respondents from around the world intended to invest. India significantly modernised its labour laws and drastically reduced business taxes. Additionally, the country has lowered its FDI restrictions, which have decreased from 0.42 to 0.21 over the last 16 years. India has remained a desirable market for foreign investment in terms of both short- and long-term prospects. India's low-skill manufacturing industry is one of the FDI industries with the biggest potential. India has increased the efficiency of its government. Despite COVID-related challenges, the state's finances have remained largely stable, and Indian business stakeholders have a positive outlook on the funding and subsidies the government provides to private companies. These factors are largely responsible for the country's improvements in public sector efficiency. Thanks to all of these considerations, India might be able to attract FDI of US\$120-160 billion yearly by 2025.

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