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A STUDY ON FDI TRENDS IN INDIA SINCE 2000

KEY WORDS: Government Policy, FDI, economic growth, international trade, sectors

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ABSTRACT

Since the liberalization of trade regulations, Foreign Direct Investment (FDI) has played a crucial role in the expansion of Indian economy, both at the macro and sector levels. The connection between FDI and economic expansion is a debatable subject worldwide. The volume of inflow varies due to a variety of regional, national, and global factors that affect investment choices. Critical policy changes and proactive decision-making demonstrated the government's exceptional resilience, which even helped to mitigate the pandemic's harm. The potential impact of FDI on important macroeconomic indicators is examined in this research paper. In order to analyze the trend of the economic route of future, the study shows the sectoral division of FDI influx. Understanding the divides and patterns helped to provide insight on how the economy was evolving. Changes to regimes are still being made by policymakers in an effort to attract FDI.

INTRODUCTION

The Indian economy has been relentlessly making efforts to foster and be self-reliant for sustenance and development through the inflow of foreign direct investment (FDI). The recent trends of digitization and robotization have helped in the increased inflow of foreign funds to India. (Singh et.al 2020). The 'Make in India' campaign initiated in India on September 25, 2014, has helped to transform the nation into a manufacturing hub for global players. The global logistics and trade capabilities boosted the confidence in the global market. It attracted foreign investment as it changed the outlook of the Indian economy as an open economy with ease of doing business (Gupta, 2020). The structural policy reforms that happened post the Make in India campaign strengthened the position of the nation globally. It has helped to nudge the youth of the nation to foster research and innovation in terms of technology. India in the previous decades has produced maximum tech start-ups and unicorns in a similar field. The rise in the economy is the result of revamped interaction between the industry and the government (Kumar, 2020).

World investment report quoted the data that there has been a downfall in global FDI in 2018-2019 by 23% which is approximately $1.43 trillion (Singh, 2019). Since the downfall witnessed by the global market, the DPIIT (Department of Promotion of Industry and Internal Trade) provided that the FDI in India hiked by 14% in 2019-20 which is the highest in the last 4 years (Chakraborty, 2020). This continued in the FY 2020-2021 as well. The inflow of FDI in the initial three quarters from April to December 2021 was $521 billion. Singapore has been the primary supplier of funds to India, followed by the US. According to the reports and estimations made by DPIIT and IBEF, in the coming years, India will continue to garner $120 – 160 billion annually by the year 2025.

The attitude of the Indian government is highly positive towards inviting the companies for Make in India, trading, and manufacturing setups. The government has pushed the limits of investments by external investors in multiple sectors, like 100% in MBRT (Multi Brand Retail Trade), 100%in coal mining, 26% in the digital industry, and even 100% in the intermediary as insurance. (Malik et. al., 2020).

According to the World Investment Report and United Nations Conference on Trade and Development (UNCTAD), Global FDI flows are predicted to decline by 30% to 40% between 2020 and 2021. The report estimated that there will be reduced but healthy growth in the post-pandemic period. It is suggested that Indian markets will continue to attract investors; this is the silver lining for the economy's gloomy cloud. India was the 9th highest beneficiary of FDI in 2019, which was worth $51 billion in investment, and this was up from $42 billion the previous year (PTI, 2020). FDI inflow to South Asia is projected to fall noticeably, but the Indian economy is anticipated to demonstrate its resilience, and this will cause a slow mount but steady in the long run. This ascend was fueled by India's lessening of the barriers to investment in imperative industries like retail and insurance in mid-2019. Top international corporations have affirmed investments in India by the ways of shares, reinvesting their earnings, and adding more capital by them in FY 2020–2021 (Sasidharan, 2020).

Many MNCs have established their research labs in India. Hyundai Mobile is opening its future vehicle technical center, Samsung to manufacture their 18 models of smartwatches in India and many other similar ventures and manufacturing units by multiple organizations and companies (PTI, 2020). So many companies suddenly decided to embrace the Indian economy, and the question rises of what paved the way for them. (Gupta, 2020) The govt. reforms and investor-friendly policy frameworks are surely helpful. The atmosphere for investment in India has altered drastically since the new millennium. India has witnessed a great inflow of confidence and trust in investors in the nation. The paradigm shift now commands the wagon of ease of doing business. This has made India the club of the top 100 countries on the list of ease of doing business with.

Literature Review

The economic performance of a country is dependent on a variety of avenues that are impacted by FDI. The avenues that the literature suggests are physical and human capital enhancement, competition enhancement in the host country's market, foreign capital investment, and advancement in technology. All these factors assist in the boost of productivity and growth of an economy that has limited liquidity (Busse and Groizard, 2006). An increase in the FDI of Costa Rica by 10 percent resulted in a hike in income, productivity, and GDP by more than 10 percent (Alexandre, 2015). Yao, 2006 researched a study spanning 28 provinces of China for the period of 1978-2000. He quoted that the sustainability and growth of the Chinese economy are due to the momentum given by the government to FDI. The impetus of FDI caused strong and positive growth and established a strong relationship with FDI.

Not just India but most of the developing nations are familiar with the changing ideology and focusing on revamping their policies. The policy structure is liberal and welcoming to FDI within the internal boundaries. The revamping culture is the result of research that has established a strong correlation between FDI and economic growth, Alfaro (2003), Lyroudi et al. (2004), Johnson (2006), and Carkovic& Levine (2002) are a few examples of such studies. The previous few decades have been the benchmarking decades for India. The developmental changes that took place during the period from LPG (Liberalization, Privatization, and Globalization) to the 'Make in India' campaign. The policies not only restructured the system but also the attitude of the investor towards the country.

India's FDI Policy Framework

1990-2013: India introduced LPG in 1991; this was the phase in which FERA (Foreign Exchange Regulations Act) changed to FEMA (Foreign Exchange Management Act). Liberalization took its true form; India wanted to gain as much foreign exchange as much possible. Foreign trade was made simple by altering the framework, and FDI was encouraged via mergers and strategic alliances. The nation wanted an easy channel to gain technology and advancement to come to the nation. It wasn't made indispensable to bring technology along with FDI (Kanungo et. al., 2018).

2014 onwards: The liberal attitude and encouragement of the Make in India campaign fall under the current period. FDI focuses on manufacturing and a major concerning area was job creation. 100% FDI in asset reconstruction companies through the automatic route was focused upon. Development in Construction was made eligible for 100 percent FDI via an automatic path. Foreign portfolio investors (FPIs) limits in the public sector in the center which were listed in the security market were raised from 24 percent to 49 percent, and banks fell under the exception (Nayak and Sahoo, 2020).

Table 1 – FDI Inflows In The Country During The Financial Years From April 2000 To March 2022

(Amount in USD Million)

Financial Year (April – March)		FIPB Route/ RBI's Automatic Route/ Acquisition Route	Equity capital of Unincorporated bodies	Re-invested earnings	Other capital	Total FDI Inflow	%age growth over previous year (in USD terms)	Investment by FII's Foreign Institutional investor INR Fund(net)
1	2000-01	2,339	61	1,350	279	4,029	-	1,847
2	2001-02	3,904	191	1,645	390	6,130	(+)52%	1,505
3	2002-03	2,574	190	1,833	438	5,035	(-)1%	377
4	2003-04	2,197	32	1,460	633	4,322	(-)14%	10,918
5	2004-05	3,250	528	1,904	369	6,051	(+)40%	8,686
6	2005-06	5,540	435	2,760	226	8,961	(+)48%	9,926
7	2006-07	15,585	896	5,828	517	22,826	(+)155%	3,225
8	2007-08	24,573	2,291	7,679	300	34,843	(+)53%	20,328
9	2008-09	31,364	702	9,030	777	41,873	(+)20%	-15,017
10	2009-10	25,606	1,540	8,668	1,931	37,745	(-)10%	29,048
11	2010-11	21,376	874	11,939	658	34,847	(-)08%	29,422
12	2011-12	34,833	1,022	8,206	2,495	46,556	(+)34%	16,812
13	2012-13	21,825	1,059	9,880	1,534	34,298	(-)26%	27,582
14	2013-14	24,299	975	8,978	1,794	36,046	(+)5%	5,009
15	2014-15	30,933	978	9,988	3,249	45,148	(+)25%	40,923
16	2015-16	40,001	1,111	10,413	4,034	55,559	(+)23%	-4,016
17	2016-17	43,478	1,223	12,343	3,176	60,220	(+)8%	7,735
18	2017-18	44,857	664	12,542	2,911	60,974	(+)1%	22,165
19	2018-19	44,366	689	13,672	3,274	62,001	(+)2%	-2,225
20	2019-20	49,977	1,757	14,175	8,482	74,391	(+)20%	552
21	2020-21(P)	59,636	1,452	16,935	3,950	81,973	(+)10%	38,725
22	2021-22(P)	58,773	1,052	18,647	5,100	83,572	(+)2%	-14,541
CUMULATIVE TOTAL (from April,2000 to March, 2022)		591,286	19,722	189,875	46,517	847,400	-	238,986

Source: (I) RBI'sBulletinforMay,2022dt.17.05.2022(TableNo.34–FOREIGNINVESTMENTINFLOW).

Table 1 shows that FDI inflows into the country increased dramatically, with a 52 percent increase in 2001-02. FDI inflows did not expand significantly from 2001-02 to 2000-04, and they were variable, falling to 18% and 14% in 2002-03 and 2003-04, respectively. The Indian Government made a shift in policy in 2006 by allowing 100% equity caps and removing restrictions. The procedures were made simplified resulting in constructive approaches to investment by foreign entities. To answers queries related to Investment problem in the country, a body was set up by DIPP (Department of Industrial Policy and Promotion) and NMCC (National Manufacturing Competitiveness Council) that handled 4500 investment-related questions on their forum. Small but substantial steps like this made the investment graph have an increasing timeline until the market crash in 2008 happened. There was hardly a recovery happening and then it was followed by the Euro crisis in 2012 and this led to falling in investments again. The Indian economy and the world economy started to repair themselves and FDIs' favorite destination became the Indian economy post. Even the pandemic was not able to affect the inflow of funds into the Indian economy.

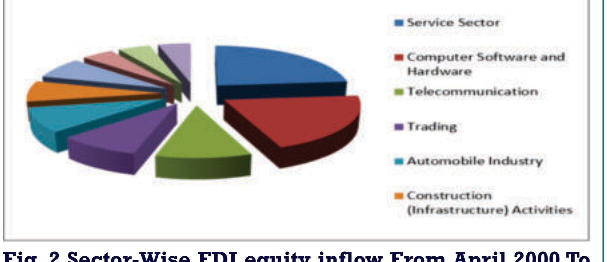

Fig. 2 Sector-Wise FDI equity inflow From April 2000 To March 2022

Table 2 – Statement On Sector-wise FDI Equity Inflow From April 2000 To March 2022

Rank	Sectors	Amount	2019-20	2020-21	2021-22	Cumulative	%age
1	Service Sector **	USD Million	7,854	5,060	7,131	94,195	16%
2	Computer Software And Hardware	USD Million	7,673	26,145	14,461	85,517	14%
3	Tele Communications	USD Million	4,445	392	668	38,331	7%

4	Trading	USD Million	4,574	2,608	4,538	34,741	6%
5	Automobile Industry	USD Million	2,824	1,637	6,994	32,842	6%
6	Construction (Infrastructure) Activities	USD Million	2,042	7,875	3,248	27,969	5%
7	CONSTRUCTION DEVELOPMENT: Townships, Housing, Built-Up Infrastructure And Construction-Development Projects	USD Million	617	422	125	26209	5%
8	CHEMICALS (Other Than Fertilizer)	USD Million	1,058	847	966	19,452	3%
9	Drugs & Pharmaceuticals	USD Million	518	1,490	1,414	19,405	3%
10	Metallurgical Industries	USD Million	2,101	1,340	2,272	17,015	3%

Source: FDI Factsheet 23 May, 2022 , Department for Promotion of Industry and Internal Trade (http://dpiit.gov.in/publications/annual-report)

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 March, 2022) are at – Annex-'B'.

(iii) FDI Sectoral data has been revalidated / reconciled in line with the RBI, which reflects minor changes in the FDI figures (increase/decrease) as compared to the earlier published sectoral data.

(iv) Figures are provisional.

Table 2 is an indication of the top 10 sectors that are responsible for the two third inflow of FDI. The top 10 sectors are the proof of the unimaginable drastic shift since 1991.Today IT sectors is the highest contributor of FDI. The futuristic ideology investors are investing in the futuristic sectors of India is a sign of long term flow of FDI.

Table 2 shows that cumulative investment in dollars is still the highest in the service sector at $94195 million. This will be overtaken by the computer software and hardware in the coming one or two years at the maximum as the cumulative stands at $ 85517 million. In the last two years, the contribution of this sector has been six times the second rank sector in 2020-21 and twice the amount in 2021-22. The growth rate has been maintained above 15% in the service sector in the last two decades. Table 2 also indicates trading, and the automobile industry are also contributing six percent each with $34,741 and $ 32,842 million. India is becoming a favorite hub for car manufacturers worldwide to set up their plants here.

CONCLUSION

The Indian market is a burgeoning investment endeavor in Asia that offers not only growth opportunities but also the assurance of smooth operation and government assistance. From 2000-01 to 2021-22, India has fetched a gigantic amount of $847,200 million. The largest growth that India has seen has been since 2014 when FDI norms were liberalized by removing barriers and creating ease of doing business. This influx has acted as a medicine, helping to improve the country's economic situation.

India is well-known among investors for its low costs, and the expanding technical need can be easily met by a large number of skilled and bright individuals at an amazing cost. Several neighboring nations, like Pakistan, Bangladesh, and Sri Lanka, have opened their economies for similar reasons, but IT skills are lacking. These countries' labour costs are even cheaper than India's, but their skill levels are also lower (Sengupta and Puri, 2020).

Many heavy industry and manufacturing units have preferred to shift their bases to India much before the pandemic. The reason for this is the Make in India policy, which assist corporations in a variety of ways and makes it easier for them to set up a facility in India with technical and labour support (Manocha, 2021).

It can be concluded that the reforms in the Indian economy have worked significantly to attract more FDI to the country. The government needs to further rethink on expediting certain policy measures so that there can be more inflow of funds along with employment generation in the country.

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