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Foreign direct investment (FDI) in India: an analytical review

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Abstract
India is the largest democracy and is fourth largest economy in terms of purchasing power parity in the world. India with its stable expansion concert and abundant high-skilled manpower provides vast occasion for investment, both domestic and foreign Investment in India and it can be made by both nonresident as well as resident Indian entities. Any non-resident investing in an Indian company is FDI. FDI is an investment made by a concern or entity based in one country into a concern or entity based in another country. FDI has helped the Indian economy raise and the government continues to support more investments of this kind. Attracting FDI has become an integral part of the economic development strategies for India. The paper focuses on secondary data based Sectoral analysis of the inflow of FDI in India from 2000 to 2020. The paper also aims to look at different facets of positive FDI spill overs in the country.

Keywords: Indian economy, purchasing power parity, high-skilled manpower foreign investment, economic development

1. Introduction

According to the International Monetary Fund (IMF), Foreign Direct Investment, commonly known as FDI, “it refers to an investment made to acquire lasting or long-term interest in enterprises operating outside of the economy of the investor". The investment is undeviating because the investor, which could be a foreign individual, business or group of entities, is seeking to control, manage, or have noteworthy influence over the foreign enterprise.

FDI is the investment made by an enterprise of one country in an enterprise resident in another country. It is considered to be the lifeblood of economic development especially for the developing and underdeveloped countries. It plays an important role in the long – term development of an economy through transfer of technology and innovative ideas, strengthening infrastructure, raising productivity and generating new employment opportunities, improving country’s trade balance, increasing labour standards and skill and the general business climate. In India, FDI is considered as a development tool, which can help in developing the economy by generating employment to the unemployed, generating revenues in the form of tax and incomes, financial stability to the government, development of infrastructure, rearward and onward linkages to the domestic firms for the requirements of raw materials, tools, business infrastructure, and act as support for financial system. Onward and reverse linkages are developed to support the foreign firm with provider of raw and other requirements. It helps in generation of employment and also helps poverty obliteration. For this purpose, in 1948, the Jawaharlal Nehru government launched a policy to gratify the foreign investor and gave them assurance that there will be no discrimination between foreign and Indian capital.

2. Review of Literature

Various governments have been responding to globalization in a positive and comprehensive way. Significant divergent changes are made in the investment policies to make them adaptable, acceptable and sustainable. This has attracted a number of researchers across the globe to have a deeper look at the investment policies especially FDI in both developed and developing countries.

Azam and Lukman (2010) [2] studied the trends and importance of FDI inflows to Pakistan, India and Indonesia during for the period ranging from 1970 to 2005 and also analyzed the factors responsible for FDI inflows to these countries. The economic determinants effects on FDI inflows to these countries were estimated using Log linear regression model and the method of least squares. The market size, external debt, domestic investment, trade openness, and physical infrastructure are the important economic determinants of FDI inflow to these countries as revealed by the models. The economic determinants of India matched with that of Pakistan excluding two determinates (*viz*, trade openness and government consumption).

Narayanamurthy *et al*. (2010) examined the factors determining FDI inflows of BRICS countries for the period 1975 to 2007 except for Russia for which the required data set was available from 1990 onwards. Panel data analysis was used as a tool for the analysis. It was concluded from the results of the study that the selected variables Market size, Labour cost, Infrastructure, Currency value and Gross Capital formation are important determinants of FDI inflows of BRICS countries in terms of their potential. The Economic Stability and Growth prospects (measured by inflation rate and Industrial production respectively), Trade openness were found to be the insignificant determinants of FDI inflows of the BRICS countries.

Chaturvedi (2011) [3] explored the sector wise distribution of FDI in order to know the dominating sector which has attracted the major share of FDI in India and to find out the correlation between FDI and Economic Development. It revealed that there is high degree of significance between FDI and economic development.

Hooda (2011) studied the trends and patterns of flow of FDI, determinants of FDI and also the impact of FDI on the Indian economy using time series data for the period 1991 to 2008. Trend analysis, annual growth rate, compound annual growth rate and regression analysis were the tools used for model building. It was observed from the results that India continued to attract substantial amount of FDI inflows India due to its flexible investment regimes and policies despite troubles in the world economy. Due to which foreign investors are encouraged to investment s in India.

Nilofer Hussaini (2011) highlighted the important economic determinants of FDI inflow and sector wise trend in the Foreign Direct Investment (FDI) inflow into India using data from 1991 to 2009 for top 10 sectors of Indian economy. It was concluded from the study that the FDI inflow over the decades was very unsteady and fluctuating trend in various sectors of the Indian economy was observed. FDI inflow was found to be highly correlated with the economic factors taken into consideration in the study. The author suggested that is in India's interest to continue to boost foreign investment by liberalizing rules on equity caps, investment reviews and other provisions that have impeded India's ability to attract more foreign investment over the recent years.

Ramachandran and Rajalakshmi (2011) studied the foreign investment flows through the automobile sector with special reference to passenger cars from 1991 to 2011 using ARIMA, coefficient, linear and compound model. The trend and composition of FDI flow and the effect of FDI on economic growth were also examined by the author. The problems faced by India in FDI growth of automobile sector through suggestions of policy implications were made.

Anitha (2012) [1] analysed the FDI inflow into India during the Post Liberalization period, and projected the trends of FDI inflow into the country for a period of five years from 2010-11 to 2014-15 using Autoregressive Integrated Moving Average (ARIMA) model.

Sahni (2012) [8] studied the trends and the determinants of the FDI inflow into India for the post liberalisation period from 1992-93 to 2008-09 using Ordinary Least Square (OLS) method for the analysis of the time series data. GDP, inflation and trade openness were found to be important factors in attracting FDI inflows in India during post reform period whereas Foreign Exchange Reserves was not an important factor in explaining FDI inflows in India.

Singh *et al*. (2012) observed that the foreign investment increased in both term i.e. FDI and FIIs and mainly equity is the important route of FDI inflow. The highest amount of FDI has gone to financing, Insurance, Real Estate and Business services which are 33.05 percent and minimum went to research & scientific services which is 0.07 percent of total cumulative inflow of FDI study period in India.

Goel *et al*. (2013) [4] applied foreign direct investment model and economic growth model to study on Trends and Patterns of FDI in India and its Economic Growth using Total Trade as a percentage of GDP, Foreign Exchange Reserves as percentage of GDP, R&D expenditure as percentage of GDP, ratio of external debts to export and Exchange rate for a period of 1991- 2010.

3. Objectives

The main objective of the study are as follows: -

- To analyze the growth of FDI inflows in India from the year 2000-2020
- To analysis of changes in FDI policy over the years.

4. Research Methodology

Research is a scientific and systematic search for relevant information on a specific subject, in this
study the data has been collected on the growth of the FDI which has been acquired from secondary data collected from the years 2000-01 to 2019-20. Trend analysis has been used to establish a strong foundation for the study.

5. FDI Policy Framework in India

Last few decades have seen significant changes in approaches and policies related to FDI in India along with developmental changes in industrial policy and foreign exchange position of the country. The early liberalization efforts began in 1980 with industrial policy statements in 1980, 1982 and 1983. There was a sizeable reduction in tariffs and many import items were shifted to open general license (OGL) category. In 1990s when the economy was under a critical phase and needed macro-economic stabilization and structural adjustment, FDI emerged as the most preferred route for mobilization of financial resources.

Hence FDI upto 51 percent equity in specified industries was permitted under the automatic approval route by the Reserve Bank of India (RBI). Further as pointed out by Sharma and Khurana (2013) under the new foreign investment policy FIPB (Foreign Investment Promotion Board) was constituted by Government of India. Its main function was to invite and facilitate foreign investment through single window system from the Prime Minister's Office. India also became the member of MIGA (Multilateral Investment Guarantee Agency) for protection of foreign investments. Since 1991 a lot of work has been done in this direction to make the environment investor friendly in the country.

Table 5.1: Evolution of FDI Policy Framework in India

Phase I *1950-67*	*Phase II* *1967-1980*	*Phase III* *1980-1990*	*Phase IV* *1990-Onwards*	*Phase V* *2014 Onwards*
Receptive Attitude	Restrictions	Pro-business approach: gradual liberalization	Open door policy	Open door policy and promotion of selective sectors of National interest
Non-discriminatory treatment to FDI No restrictions on remittances Indians having ownership and control	Restrictions on FDI without technology. More than 40 percent not allowed. FDI controlled by FERA (foreign exchange regulation act)	Export oriented units allowed higher FDI Liberalization in the procedure of remittance and royalty in technical fees. Faster channels for FDI clearance created.	Liberalized policy framework for foreign trade, foreign exchange and technical collaborations. Core and infrastructure sectors: FDI was welcomed FERA replaced with FEMA (Foreign exchange management act). It was not necessary for FDI to be accompanied with technology. FDI was encouraged through mergers and acquisitions in services and financial sector, non-banking financial companies and insurance, etc.	Promoting FDI selectively in several sectors. Focus on FDI for job creation and domestic manufacturing. Raising FDI in defense sector from 26 percent to 49 percent. Full Indian Management and control through FIPB route. Development of smart cities and reduction in FDI from 50,000 square meters to 20,000 square meters with a three year post completion lock in. FDI in manufacturing through automatic route. Manufacturers allowed to sell through retail including e commerce platforms. Raising for FDI in the insurance sector from 26 % to 49 %., Civil aviation raised from 74 % to 100 %. FII/FPI allowed to invest in Power exchanges through primary market. Overseas investment up to 49% in the insurance and pension sectors under the automatic route. 100% FDI in asset reconstruction companies through the automatic route. Construction development eligible for 100 % FDI under the automatic route. Limit for investment by foreign portfolio investors (FPIs) in central public sector enterprises, other than banks, listed in stock exchanges raised from 24 % to 49 %. Investment limit for foreign entities in Indian stock exchanges will be enhanced from 5% to 15%

Source: Dr. Anuj Goel *et al*. (October 2020)

The Investment climate in India has changed and improved considerably since the opening up of the economy in 1991 and more progress was achieved under it from 2014 onwards. Easing of FDI norms played a pivotal role in raising the FDI in different sectors of the economy. The Indian economy is currently part of the 100 club on Ease of Doing Business and globally ranks first in the Greenfield FDI ranking. India received the record FDI of $ 60.1 bn in 2016-17.1 Under the current framework of FDI there are two routes to enter the country by Multinational companies: the government route and the automatic route. Under the government route there is a prior permission for investment required and need to be approved by the respective administrative Ministry or department. Under the Automatic route, the investor requires no approvals from the Government of India for investment. Under both routes FDI can be permitted up to 100 percent.

6. Analysis & Interpretation

Trend analysis is a mathematical technique that uses historical results to predict future outcome. This is achieved by tracking variances in cost and schedule performance. It is a method of time series data involving the comparison of the same item to detect the general pattern of relationship between associated factors or variable and predict the future. Trend Analysis eliminates potential error by utilizing precise calculations in order to provide the utmost accuracy. It is the most dependable and efficient method for anticipating possible future behavior and desired outcome. This method involves making a comparison between what will happen and what happened.

Table 6.1: Trend Analysis & FDI Inflows

YEAR	ACTUAL VALUE	TREND VALUE
2000-01	4029	
2001-02	6,130.00	
2002-03	5035	
2003-04	4322	
2004-05	6051	
2005-06	8,961.00	
2006-07	22,826.00	
2007-08	34,843.00	
2008-09	41,873.00	
2009-10	37,745.00	
2010-11	34,847.00	
2011-12	46,556.00	
2012-13	34,298.00	
2013-14	36,046.00	
2014-15	44,877.00	
2015-16		49146.93
2016-17		52105.2
2017-18		54943.16
2018-19		57746.63
2019-20		60597.43

Source: Ms. Maheshwari. M (2020)

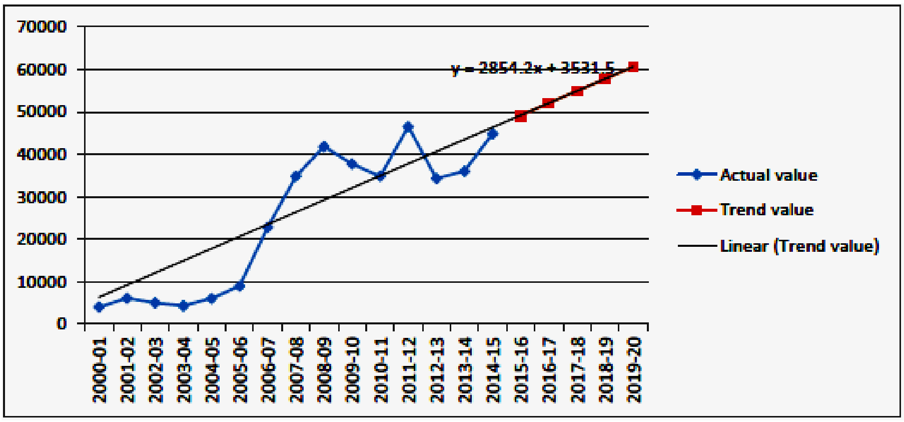
Table 6.2: Sector-Wise FDI Equity Inflows from April 2000 to September 2020

S.No	Sector	Amount of FDI Inflows		%age of Total Inflows
		(In Rs crore)	(In US$ million)	
1	SERVICES SECTOR (Fin.,Banking,Insurance,Non Fin/Business,Outsourcing,R&D,Courier,Tech. Testing and Analysis, Other)	488,684.71	84,254.85	16.85
2	COMPUTER SOFTWARE & HARDWARE	407,175.43	62,465.65	12.49
3	TELECOMMUNICATIONS	219,238.14	37,277.57	7.46
4	TRADING	183,144.51	28,543.49	5.71
5	CONSTRUCTION DEVELOPMENT: Townships, housing, built-up infrastructure and construction-development projects	124,851.46	25,780.42	5.16
6	AUTOMOBILE INDUSTRY	146,904.11	24,627.85	4.93
7	CHEMICALS (OTHER THAN FERTILIZERS)	101,841.65	18,076.74	3.62
8	CONSTRUCTION (INFRASTRUCTURE) ACTIVITIES	111,196.90	17,223.40	3.44
9	DRUGS & PHARMACEUTICALS	90,529.38	16,867.75	3.37
10	HOTEL & TOURISM	93,906.90	15,571.53	3.11
11	POWER	84,507.35	15,231.51	3.05
12	METALLURGICAL INDUSTRIES	80,967.99	14,244.26	2.85
13	FOOD PROCESSING INDUSTRIES	63,481.82	10,201.17	2.04
14	ELECTRICAL EQUIPMENTS	59,697.29	9,819.30	1.96
15	NON-CONVENTIONAL ENERGY	60,624.34	9,686.09	1.94
16	INFORMATION & BROADCASTING (INCLUDING PRINT MEDIA)	56,581.33	9,369.01	1.87
17	PETROLEUM & NATURAL GAS	41,234.37	7,866.14	1.57
18	HOSPITAL & DIAGNOSTIC CENTRES	42,377.02	6,889.70	1.38
19	CONSULTANCY SERVICES	35,520.70	5,944.39	1.19

20	INDUSTRIAL MACHINERY	33,390.23	5,726.15	1.15
21	CEMENT AND GYPSUM PRODUCTS	29,336.96	5,282.69	1.06
22	SEA TRANSPORT	26,566.48	4,385.69	0.88
23	EDUCATION	25,194.73	3,849.20	0.77
24	MISCELLANEOUS MECHANICAL & ENGINEERING INDUSTRIES	19,136.86	3,650.78	0.73
25	TEXTILES (INCLUDING DYED,PRINTED)	20,468.62	3,464.12	0.69
26	RETAIL TRADING	23,389.61	3,357.33	0.67
27	RUBBER GOODS	19,138.55	3,167.50	0.63
28	FERMENTATION INDUSTRIES	17,630.65	3,047.89	0.61
29	ELECTRONICS	17,332.91	2,941.91	0.59
30	AIR TRANSPORT (INCLUDING AIR FREIGHT)	18,433.35	2,848.75	0.57
31	MINING	16,058.42	2,789.44	0.56
32	PRIME MOVER (OTHER THAN ELECTRICAL GENERATORS)	14,898.61	2,464.28	0.49
33	AGRICULTURE SERVICES	11,896.78	2,224.44	0.45
34	MEDICAL AND SURGICAL APPLIANCES	13,372.76	2,172.79	0.43
35	PRINTING OF BOOKS (INCLUDING LITHO PRINTING INDUSTRY)	12,161.07	1,858.58	0.37
36	SOAPS, COSMETICS & TOILET PREPARATIONS	9,798.98	1,647.32	0.33
37	PORTS	6,730.91	1,637.30	0.33
38	PAPER AND PULP (INCLUDING PAPER PRODUCTS)	7,961.01	1,459.18	0.29
39	RAILWAY RELATED COMPONENTS	7,416.45	1,215.23	0.24
40	DIAMOND,GOLD ORNAMENTS	6,892.07	1,183.07	0.24
41	MACHINE TOOLS	5,351.43	985.41	0.20
42	VEGETABLE OILS AND VANASPATI	5,818.39	979.80	0.20
43	CERAMICS	4,559.72	882.69	0.18
44	AGRICULTURAL MACHINERY	4,285.49	715.83	0.14
45	GLASS	4,002.20	703.56	0.14
46	FERTILIZERS	4,006.23	700.80	0.14
47	EARTH-MOVING MACHINERY	2,808.44	483.63	0.10
48	COMMERCIAL, OFFICE & HOUSEHOLD EQUIPMENTS	2,260.50	416.91	0.08
49	SCIENTIFIC INSTRUMENTS	1,745.38	287.75	0.06
50	BOILERS AND STEAM GENERATING PLANTS	1,624.24	263.37	0.05
51	LEATHER,LEATHER GOODS AND PICKERS	1,228.17	215.11	0.04
52	SUGAR	1,280.02	213.91	0.04
53	TIMBER PRODUCTS	1,131.77	190.10	0.04
54	TEA AND COFFEE (PROCESSING & WAREHOUSING COFFEE & RUBBER)	826.12	156.58	0.03
55	GLUE AND GELATIN	951.90	148.53	0.03
56	DYE-STUFFS	584.51	98.63	0.02
57	INDUSTRIAL INSTRUMENTS	454.52	88.53	0.02
58	PHOTOGRAPHIC RAW FILM AND PAPER	273.76	67.29	0.01
59	COAL PRODUCTION	119.19	27.73	0.01
60	DEFENCE INDUSTRIES	60.77	10.05	0.00
61	MATHEMATICAL,SURVEYING AND DRAWING INSTRUMENTS	39.80	7.98	0.00
62	COIR	22.05	4.07	0.00
63	MISCELLANEOUS INDUSTRIES	63,417.72	12,038.46	2.41
	Sub Total	**2,956,523.69**	**500,001.17**	
64	**RBI's- NRI Schemes (2000-2002)**	**533.06**	**121.33**	
	GRAND TOTAL	**2,957,056.75**	**500,122.50**	

Source: RBI Report (2021)

Table 6.3: Statistics highlighting actual values and trend values



Source: Ms. Maheshwari. M (2020)

The trend values have been calculated from 2000-01 to 2019-20 and a mere estimation has been found for the year 2016 to 2020. The FDI in the year 2000 is Rs. 4029 crore and it has been increased to Rs. 44877 crores in the year 2015. In case of future prediction, the estimated FDI amounts to Rs. 49146 crores in the year 2016, Rs. 52105.2 crores in the year 2017, and Rs. 54943.16 crores in 2018, Rs. 57746.63 crores in the year 2019 and Rs. 60597.43 crores in the year 2020. The actual values and trend values are predicted in the chart above.

Table 6.4: State-Wise FDI Equity Inflows from October 2019 to September 2020

Sr.No.	State Name	Amount of Foreign Direct Investment Inflows		%age with Inflows
		Amount (In Rs Crore)	Amount (In US$ Million)	
1.	GUJARAT	138530.40	18595.70	34.97
2.	MAHARASHTRA	79216.47	10881.60	20.00
3.	KARNATAKA	58204.21	7948.53	14.69
4.	DELHI	48350.23	6635.30	12.20
5.	JHARKHAND	19197.79	2643.76	4.85
6.	TAMIL NADU	14292.21	1943.87	3.61
7.	HARYANA	10309.51	1407.72	2.60
8.	TELANGANA	9909.77	1347.74	2.50
9.	UTTAR PRADESH	3417.94	467.57	0.86
10.	WEST BENGAL	3348.11	451.22	0.85
11.	RAJASTHAN	2120.90	291.76	0.54
12.	ANDHRA PRADESH	1798.81	248.75	0.45
13.	MADHYA PRADESH	1671.41	225.70	0.42
14.	KERALA	1291.90	174.49	0.33
15.	PUNJAB	862.76	118.58	0.22
16.	GOA	560.59	77.97	0.14
17.	ORISSA	173.65	23.81	0.04
18.	HIMACHAL PRADESH	128.60	17.67	0.03
19.	BIHAR	123.12	16.42	0.03
20.	UTTARAKHAND	116.16	16.15	0.03
21.	CHANDIGARH	67.29	9.09	0.02
22.	ASSAM	60.71	8.19	0.02
23.	DADRA & NAGAR HAVELI	21.41	2.96	0.01
24.	DAMAN & DIU	22.11	2.95	0.01
25.	PONDICHERRY	5.97	0.82	0.00
26.	ARUNACHAL PRADESH	5.50	0.74	0.00
27.	TRIPURA	3.24	0.43	0.00
28.	JAMMU AND KASHMIR	1.57	0.21	0.00
29.	CHHATTISGARH	0.20	0.03	0.00
30.	State Not Indicated	2358.96	325.13	0.60
		396171.48	53884.85	

Source: RBI Report (2021)

7. Conclusion

FDI has helped the Indian economy grow and the government continues to encourage more investments of this sort. Attracting FDI has become an integral part of the economic development strategies for India. FDI Policy permits FDI up to 100 percent from foreign/NRI investor without prior approval in most of the sectors including the services sector under automatic route. FDI in sectors/activities under automatic route does not require any prior approval either by the Government or the RBI.

Although, the share of FIPB route is declining somewhat as compared to RBI's automatic route and acquisition of existing shares route. The increase in FDI inflows during 2008 is due to increased economic growth and sustained developmental process of the country. From last six financial years 2013-14 and 2014-15 and so on the growth of FDI inflows is much higher.

As per international best practices the total FDI flows in 2000-01 is 4,029 US $ Million which is increased to 64,375 US $ Million in 2018-19. The Cumulative Total of FDI from April 2000 to March 2019 is 609,838 US $ Million. As per DIPP'S FDI Data Base Equity Capital components only the total FDI flows in 2000-01 is 2,463 US $ Million which is increased to 44,366 US $ Million in 2018-19. The Cumulative Total of FDI from April 2000 to March 2019 is 420,142 US $ Million.

To sum up, the recent changes in FDI policy regime of 2017 by GOI has helped to remove multiple layers of bottlenecks faced by foreign investors. The investment processes have been rationalized and expedited. "The Government has eased 87 FDI rules across 21 sectors in the last 3 years, opening up traditionally conservative sectors like rail infrastructure and defense. All in all, the efforts should be directed to maintain India's trajectory towards remaining the world's most attractive destinations for foreign investment.

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