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STATEMENT OF THE PROBLEM
OBJECTIVES
HYPOTHESIS (ES)
RESEARCH METHODOLOGY
RESULTS & DISCUSSION
FINDINGS
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TREND AND PATTERN OF FOREIGN DIRECT INVESTMENT INFLOW IN INDIA

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ABSTRACT

Foreign Investment is considered to be the life blood and an important vehicle of for economic development as far as the developing nations are concerned. Its global popularity and positive output in augmenting the domestic capital, productivity and employment; has made it an indispensable tool for initiating economic growth in countries. But there are some controversies and challenges regarding FDI in India and there is a need to reflect upon the question that will high growth and inflows of FDI be able to solve structural imbalances of Indian economy and whether it will succeed in improving the lot of bottom section of the Indian economy, which are living in abysmally poor socio-economic conditions. The employment elasticity in the agriculture and industrial sector has gone down in the post-reform period, therefore, the creation of employment opportunities will be a gigantic task for the policy makers. FDI has come in the most capital-intensive sectors; therefore, the required employment opportunities could not be created especially for the manual and the semi-skilled labor while high skilled workforce gained substantially. That is why high growth is called urban centric and thus has developed a wedge between the urban and rural economy.

KEYWORDS

Indian economy, foreign direct investment (FDI).

INTRODUCTION

Most of the countries in the world have recognized the role and relevance of foreign capital to deal with rapid changes in the economy. In developing countries like India there has been a great requirement of foreign capital, not only to enhance the productivity but also to build up the foreign exchange funds needed to meet trade deficits. Further, FDI is essential for economic development because it helps in speeding up the economic activity and brings other scare productive resources like technical know- how and managerial experience.

Foreign investment refers to investment made by the residents of one country in the production processes and financial assets of another country. After the opening up of the borders for capital movement, these investments have grown in leaps and bounds. International capital inflows have both encouraging as well as discouraging aspects. Some commonly observed effects of the capital include real, stock market and real estate boom, reserve accumulation, monetary expansion as well as effect on production and consumption.

In June 1991, the Indian government started a program of macroeconomic adjustment and auxiliary alteration upheld by the IMF and World Bank. As a component of this program new economic policy was reported on July 24, 1991 which has begun full scale progression and increased the procedure of reconciliation of India with the worldwide economy. The legislature changed the administration for outside speculation with the essential goal of developing non-obligation making outside capital inflows though innovation procurement was just auxiliary. In 34 high need businesses FDI up to 51% was permitted if certain standards are fulfilled. FDI proposition don't really need to be joined by innovation exchange assertions. To magnetize multinational ventures in the energy sector, 100% foreign amount of equity was allowed in generation of power. The Forex regulation act of 1973 has been altered and limitations set on foreign organizations by the FERA have been lifted. The global exchange arrangement administration has also been significantly changed, with lower levies on most sorts of importable and sharp pruning of negative rundown of imports.

REVIEW OF LITERATURE

Khan and Banerji (2014) examined the impact and pattern of foreign direct investment in India. In this study they observed that foreign direct investment has slowly moved from manufactured to service sector because of easy entry and exit conditions. It was also found that due to progressed economic reforms in India, FDI has shown a positive linear trend continuously. Jatinder Singh (2010) in his study observed that in past-reform period inflow of FDI into India augmented much greater than before. Besides this, the ratio of actual realization of FDI inflow to approval has remarkably increased after 2000. Additionally, the focus of FDI has shifted from manufacturing to service sector. Singh, Vivek (2016) in his study reveals that FDI shown an incredible growth in 2nd decade (2000-2015) that is three times more than the first decade of FDI in service sector. In other words, service sector and Mauritius come out as the leading source of FDI in India. Varghese, Titto (2016) in his study examined that India has received maximum number of financial collaboration as compared to technical collaborations. It was also found that State-wise FDI inflow are concentrated in their capital territory and Mauritius and US are the two major sources occupying first and second position. Singhania and Gupta in their study explained that GDP, inflation and scientific research are significant in explaining the variations in inflow of FDI and policy changes in year 1995 and later in 1996 and 1997, had major impact on India's FDI flow and may be the turning point in taking India towards a better position. Besides this Inflation and Gross Domestic Production positively impact the FDI's inflow and scientific progress effect adversely, which was very astonishing. Priyanka Sahni (2012) in her study indicated that GDP, inflation and Trade Openness are important factors in attracting FDI inflows in India during post-reform period whereas Foreign Exchange Reserves are not important factors in explaining FDI inflows in India. Sapna Hooda (2011) in her study found that foreign Direct Investment (FDI) is a vital and significant factor influencing the level of growth in Indian economy. She also examined the determinants of FDI inflows and found that trade GDP, Research and Development GDP, exchange rate, Reserves GDP are the important macroeconomic determinants of FDI Inflows in India. C.S. Shylajan (2011) in his study found that FDI is positively associated with real GDP and previous period FDI inflow but inversely associated with inflation. It showed that the macroeconomic instability in terms of inflation has been an important factor which influenced the inflow of FDI in India in the post reform period.

OBJECTIVES OF THE STUDY

1. To analyse the trend of FDI flow into India during 2000-2016.
2. To identify the route-wise, country-wise, sector-wise and region-wise FDI pattern into India.

RESEARCH METHODOLOGY

The study is analytical and descriptive in nature. Data required for the study have been gathered from various websites, monthly & annually RBI Reports, FDI statistics, SAI newsletters, handbook of statistics on Indian Economy, Economic survey (GOI), DIPP (Department of Industrial Policy and Promotion), FDI Intelligence Reports, World Investment Reports, UNCTAD and previous studies of eminent authors have been deeply reviewed to assess the FDI performance. Collected data was evaluated by using various statistical tools and techniques such as simple percentage method has been used to depict growth, Compounded Annual Growth Rate (CAGR) and Trend Line method has been used to show the trend in FDI flows, and tables and graphs also has been used to depict the pattern of FDI inflow whenever required.

A. TREND ANALYSIS OF FOREIGN INVESTMENT

Foreign investment has taken a quantum jump from begin of the New Economic Policy in 1991. The patterns in outside venture inflows are introduced in Table-1.

TABLE 1: TREND ANALYSIS OF FOREIGN INVESTMENT

Year	Amount in Rs. Billion	Amount in US$ in million	Annual Growth in %
2001	267.44	5862	--
2002	319.20	6686	14.1
2003	200.98	4161	-37.7
2004	628.42	13744	230.3
2005	580.57	13000	-5.41
2006	687.82	15528	19.4
2007	667.91	14753	-4.9
2008	1743.95	43326	193.6
2009	350.61	8341	-80.7
2010	2399.51	50362	503.7
2011	1934.82	42127	-16.3
2012	1887.38	39231	-6.8
2013	2546.53	46710	19.1
2014	1596.50	26386	-43.5
2015	4490.72	73456	178.4
2016	2085.79	31891	-56.5
Total	22388.15	435564	

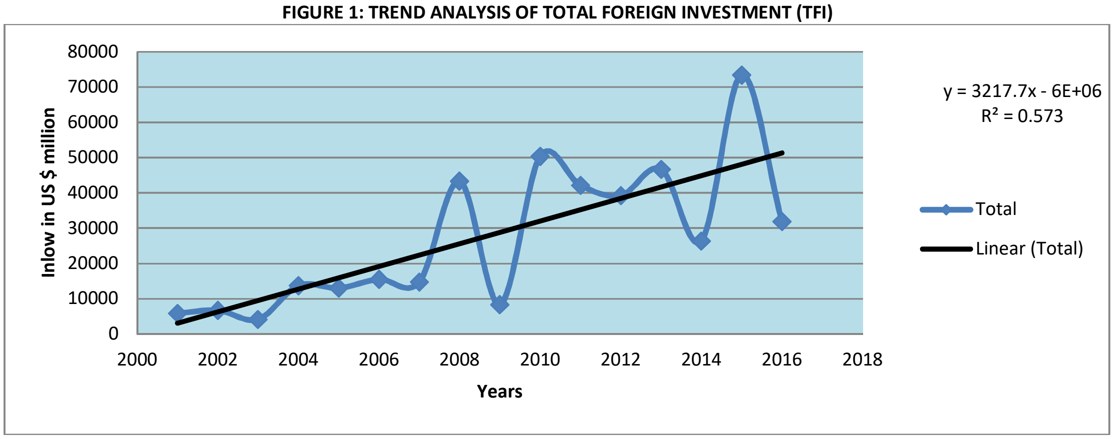
Source: Handbook of statistics of the Indian Economy, 2015-2016

Table-1 demonstrates that India got a sum of $5862 million in 2001 which expanded and touched a record high of $ 43326 million in 2007-08. After a sharp hop in the inflows in 2007-08, foreign venture declined pointedly in 2008-09. Total Foreign investment inflows from 2001 to 2016 have been to the tune of $ 435564 million.

The compound annual rates (CAGR) of aggregate foreign investment were figured and the outcomes are given beneath.

- CAGR for 2001 to 2016 was observed to be 11.95%
- CAGR for 2001 to 2008was observed to be 33.08%
- CAGR for 2009 to 2016 was observed to be 21.12%

FIGURE 1: TREND ANALYSIS OF TOTAL FOREIGN INVESTMENT (TFI)



A transient investigation of aggregate foreign investment (TFI) was made to get a reasonable picture of what is occurring at the national level. The pattern investigation of TFI (Figure: - 1) in the midst of 2000- 2001 to 2015-16 demonstrates that the pattern line is direct and positive with y = 3217.x - 6E+06.

FOREIGN DIRECT INVESTMENT TRENDS IN INDIA

The financial changes and advancement of FDI approach specifically have influenced the extent and trend of FDI inflows obtain by India. The pattern of FDI in India is here in Table - 2.

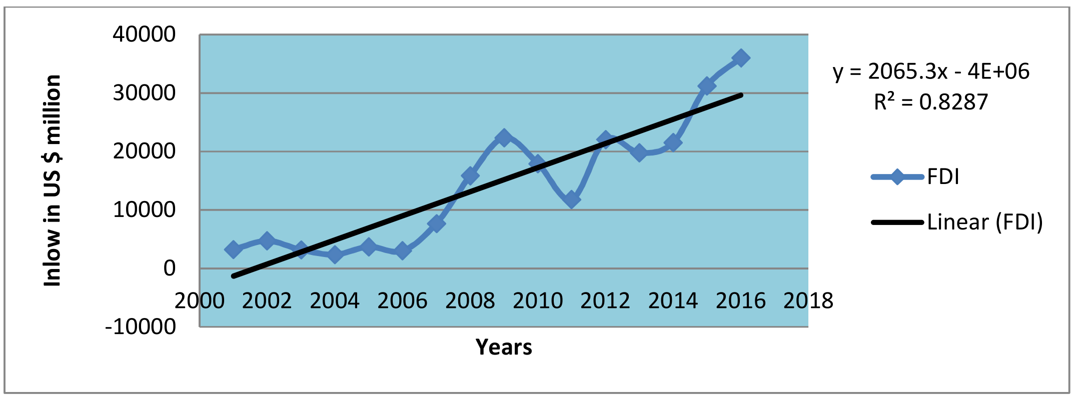
TABLE 2

Year	FDI in US $ million	FDI in Rs. billion	%age growth
2001	3272	149.24	-
2002	4734	226.3	44.6
2003	3217	155.94	(-)32.1
2004	2388	109.44	(-)25.7
2005	3713	167.45	55.4
2006	3034	134.25	(-)18.3
2007	7693	349.1	153.5
2008	15893	637.76	106.6
2009	22372	1001.06	40.7
2010	17966	859.83	(-)19.7
2011	11834	541.01	(-)34.1
2012	22061	1031.67	86.4
2013	19819	1081.86	(-)10.16
2014	21564	1299.69	8.8
2015	31251	1912.19	44.9
2016	36021	2357.82	15.2
Total	226832		

The compound yearly growth rates of FDI were ascertained and the outcomes are given underneath.

- CAGR for 2001 to 2016 was observed to be 17.34 %
- CAGR for 2001 to 2008 was observed to be 25.33 %
- CAGR for 2009 to 2016 was observed to be 7.04 %

FIGURE 2: FDI INFLOW



The pattern examination of FDI demonstrates a positive linear trend with y = 2065.x - 4E+06.

INDIA'S FDI TREND IN GLOBAL FDI MARKET

Among the Asia-Pacific region, India become most favored destination for foreign direct investment by replacing China with $63bn of announced inward capital investment. India experienced expansion in both capital investment and project numbers in year 2015 and 2016 and strengthening its position by overtaking China. India's share in worldwide FDI streams is here in Table no. 3.

TABLE 3

INDIA'S FDI TREND IN GLOBAL FDI MARKET

Year	Global FDI (US$ Million)	FDI Flows to India (US$ Million)	% age share
2001	683765.4	5477.6	0.80
2002	589808.9	5629.7	o.95
2003	550588.8	4321.1	0.78
2004	688233.0	5777.8	0.84
2005	950125.0	7621.8	0.80
2006	1402125.9	20327.8	1.44
2007	1902244.5	25349.9	1.33
2008	1497788.1	21302.4	3.14
2009	1181412.2	35633.9	3.01
2010	1388821.0	27417.1	1.97
2011	1566839.0	36190.5	2.30
2012	1510918.3	24195.8	1.60
2013	1427180.9	28199.4	0.20
2014	1276999.3	34582.1	2.71
2015	1762155.0	44208.0	2.51
Grand Total	**18379005.3**	**352034.9**	**1.13**

Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).

From Table - 3 it is apparent that India's share in worldwide FDI streams demonstrated a reliable rise from 2004 to 2007 while its share decreased during the previous three years and during next two years. But in year 2011 India's share in global FDI once again in progress and reached its percentage share more than 2% for the first time. India's share was at its top in 2008 which was to the tune of 3.14 %. India's share in worldwide FDI streams expanded from 0.80 % in 2001 to 2.51 % in 2015.

B. DIMENSIONS AND PATTERN OF FDI

1. Component-wise (Route-wise) Analysis of FDI inflow
2. Country-wise Analysis of FDI inflow
3. State-wise Analysis of FDI inflow

4. Sector-wise Analysis of FDI inflow

1. COMPONENT-WISE (ROUTE-WISE) ANALYSIS OF FDI

There are two primary channels for the passage of FDI into India: the FIPB/SIA course and the RBI Automatic Approval course.

The actual FDI inflow in India is welcome under five broad heads:

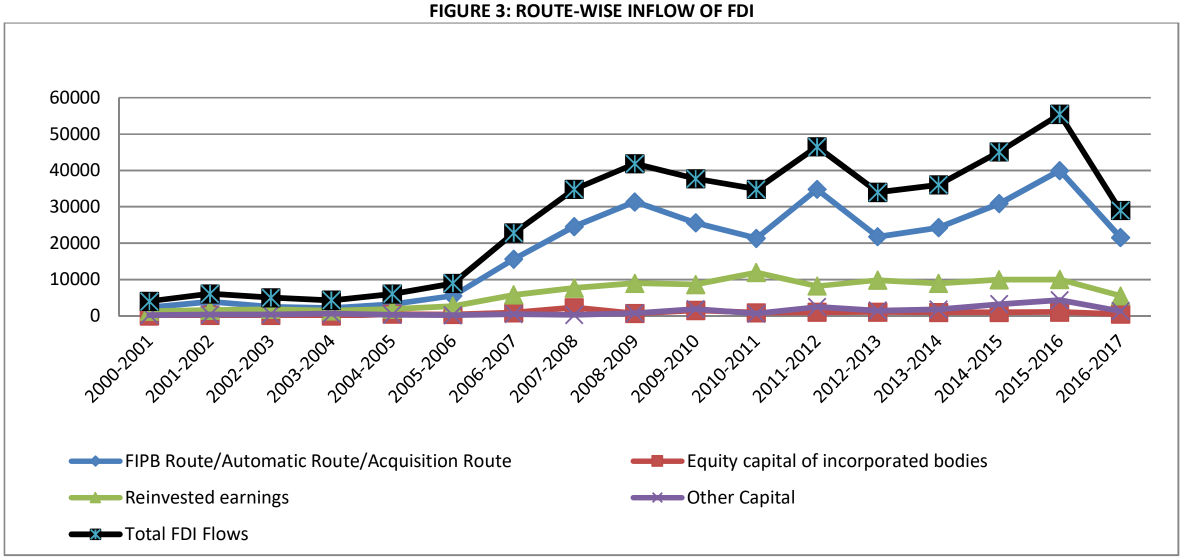
(i) Foreign Investment Promotion Board's (FIPB) discretionary approval route for larger projects,
(ii) Reserve Bank of India (RBI) automatic route,
(iii) Acquisition of shares route (since 1996),
(iv) Non–Resident Indian (NRI's) Investment scheme, and
(v) External commercial borrowings (ADR/GDR) route.

Table - 4 presents the FDI inflows by various routes from 2000 to 2016.

Table 4 (Amount in US$ Million)

(April-March)	Equity				TOTAL FLOW OF FDI INTO INDIA	
Financial Year	FIPB Route/Automatic Route/Acquisition Route	Equity capital of incorporated bodies	Reinvested earnings	Other Capital	Total FDI Flows	%age Growth over previous year
2000-2001	2339	61	1350	279	4029	--
2001-2002	3904	191	1645	390	6130	(+)52%
2002-2003	2574	190	1833	438	5035	(-)18%
2003-2004	2197	32	1460	633	4322	(-)14%
2004-2005	3250	528	1904	369	6051	(+)40%
2005-2006	5540	435	2760	226	8961	(+)48%
2006-2007	15585	896	5828	517	22826	(+)155%
2007-2008	24573	2291	7679	300	34843	(+)53%
2008-2009	31364	702	9030	777	41873	(+)20%
2009-2010	25606	1540	8668	1931	37745	(-)10%
2010-2011	21376	874	11939	658	34847	(-)8%
2011-2012	34833	1022	8206	2495	46556	(+)34%
2012-2013	21825	1059	9880	1534	34298	(-)26%
2013-2014	24299	975	8978	1794	36046	(+)5%
2014-2015	30933	978	9988	3249	45148	(+)25%
2015-2016	40001	1042	10049	4365	55457	(+)23%
2016-2017	21624	516	5531	1345	29016	
CUMULATIVE TOTAL	311,823	13,332	106,728	21,300	453183	---

FIGURE 3: ROUTE-WISE INFLOW OF FDI



2. COUNTRY-WISE ANALYSIS OF FDI INFLOW

Sources of FDI inflows into India are the organizations enlisted in different countries. Table 5 demonstrates the share of the major ten investing nations in India's FDI during 2000 to 2016.

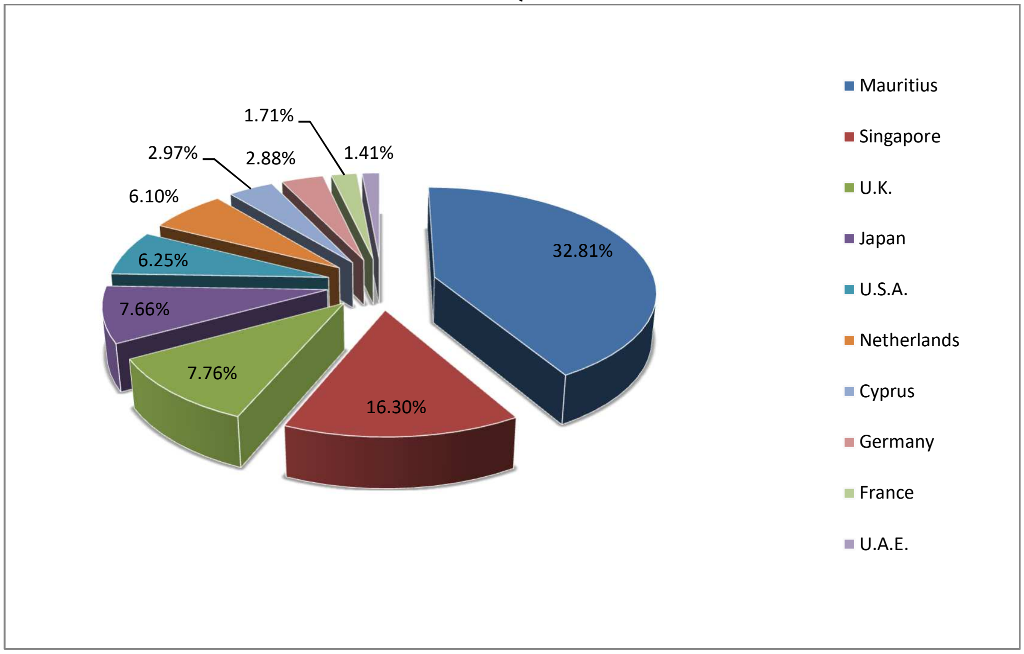
TABLE 5: STATEMENT ON COUNTRY-WISE FDI EQUITY INFLOW FROM 2000-2016

Ranks	Country	Amount (in US$ Million)	%
1	Mauritius	101760	32.81
2	Singapore	50560	16.30
3	U.K.	24072	7.76
4	Japan	23760	7.66
5	U.S.A.	19380	6.25
6	Netherlands	18929	6.10
7	Cyprus	9217	2.97
8	Germany	8933	2.88
9	France	5294	1.71
10	U.A.E.	4385	1.41

Source: RBI Bulletin 2016

Table-5 shows the country-wise total amount of inflows from 2000 to 2016 in terms of US $. It discloses that investments of 10 countries accounted for 80 percent of FDI, the main investor countries being Mauritius, Singapore, UK, Japan, USA, and Netherlands and so on. FDI inflow from Mauritius constitutes 32.81% of the total FDI in India and enjoying the position of biggest source of FDI. This dominance happens because Mauritius is a country with very minimal, almost zero tax regime and it has signed DTAA (Double Taxation Avoidance Agreement) with India. This type of Double Taxation treaty (DTAA) has been made with Singapore also. That's why Singapore constitutes 16.30% of the total FDI in India and having the 2nd position. The other major countries are UK with a relative share of 7.76% followed by Japan, USA, Netherlands, Germany, Cyprus, France, and UAE.

FIGURE 4: COUNTRY-WISE FDI EQUITY INFLOW FROM 2000-2016



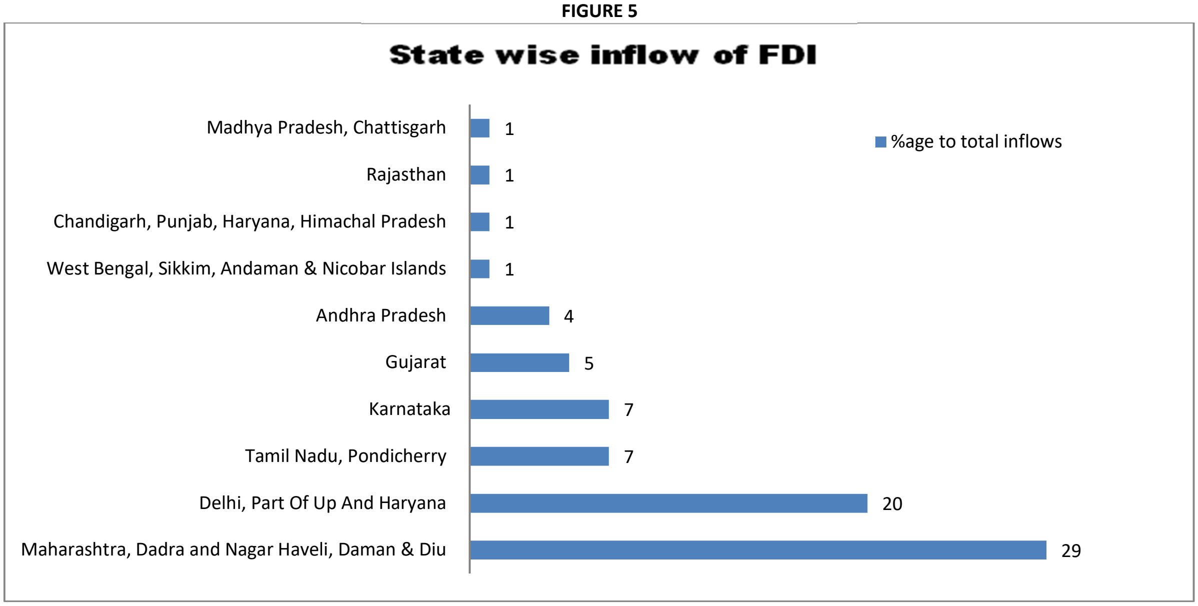
India is a preferred destination for investors over other major countries, because of its huge market base, favorable business environment, a good administrative setup, attractive foreign policies, abundant skilled workforce and fast-developing spending habits of middle-class Indians.

3. STATE-WISE ANALYSIS OF FDI INFLOW

TABLE 6 (Amount in US$ Million)

S. No.	State wise inflow of FDI	Cumulative FDI (2000 - 2016)	%age to total inflows
1	Maharashtra, Dadra and Nagar Haveli, Daman & Diu	92,848	30
2	Delhi, Part Of Up And Haryana	65,652	21
3	Tamil Nadu, Pondicherry	22,161	7
4	Karnataka	21,318	7
5	Gujarat	13,653	4
6	Andhra Pradesh	12,648	4
7	West Bengal, Sikkim, Andaman & Nicobar Islands	3,967	1
8	Kerala Lakshadweep	1,629	1
9	Rajasthan	1,457	0.5
10	Chandigarh	6,576	0.4

FIGURE 5



The regional distribution of FDI inflows in the above table shows highly concentrated patterns. Table-6 shows that more than 70% of the total FDI received by the eight regional offices. Maharashtra, Delhi and its nearby area received 49% of the total FDI inflow in to the country since 2000. Maharashtra attracted maximum share of inflow which is about 30% of total FDI inflow from 2000-2016. The National Capital Region including parts of Uttar Pradesh and Haryana received 19% of the country's total FDI. In other words, Mumbai and NCR attracted a significant part of total FDI inflow in the country. Tamil Nadu (including Pondicherry) and Karnataka received the third highest percent (which is 7, 7 % each) of total Indian FDI, followed by Gujarat (4%), Andhra Pradesh (4%) and West Bengal (1%).
Most software companies are in Mumbai and Bangalore where the Indian industry originally developed, but they are also developing quickly in Delhi and its surroundings as well as in Andhra Pradesh and Tamil Nadu. As to the main poles of competitiveness, they are mainly concentrated in the South on the axis of Madras and Bangalore, and around Delhi and Mumbai.

4. **SECTOR-WISE ANALYSIS OF FDI INFLOW**

In the pre-reform period, FDI was deliberately diverted into technology escalated manufacturing through a specific arrangement. In the post-reform period, not-withstanding, opening up of new enterprises, for example, service and framework to FDI has prompted to a considerable measure of FDI going to them accordingly cutting down the share of manufacturing. Inside the manufacturing as well, now there is no strategy to coordinate the FDI to certain branches, buyer merchandise businesses that did not have such a great amount of exposure to FDI have ascended in significance.
The adjustment in the sector-specific inflows of FDI is analyzed on the premise of the variety in the division positions in light of their share in altogether FDI inflows. The sector-wise distribution of FDI in the post reforms period is introduced in Table - 7.

TABLE 7: STATEMENT ON SECTOR-WISE FDI EQUITY INFLOW FROM 2000-2016 (Amount in US$ Million)

Ranks	Sectors	Amount	%
1	Service sector	58080.38	18.08
2	Construction development	24249.79	8.82
3	Computer software & Hardware	22050.02	7.11
4	Telecommunication	21169.09	6.83
5	Automobile Industry	15793.24	5.09
6	Drugs Pharmaceuticals	14490.21	4.67
7	Trading	13354.42	4.31
8	Chemical (other than Fertilizers)	12432.77	4.01
9	Power	11034.73	3.56
10	Hotel & Tourism	9749.97	3.14

Source: RBI Bulletin

FIGURE 6: SECTOR WISE FDI INFLOW

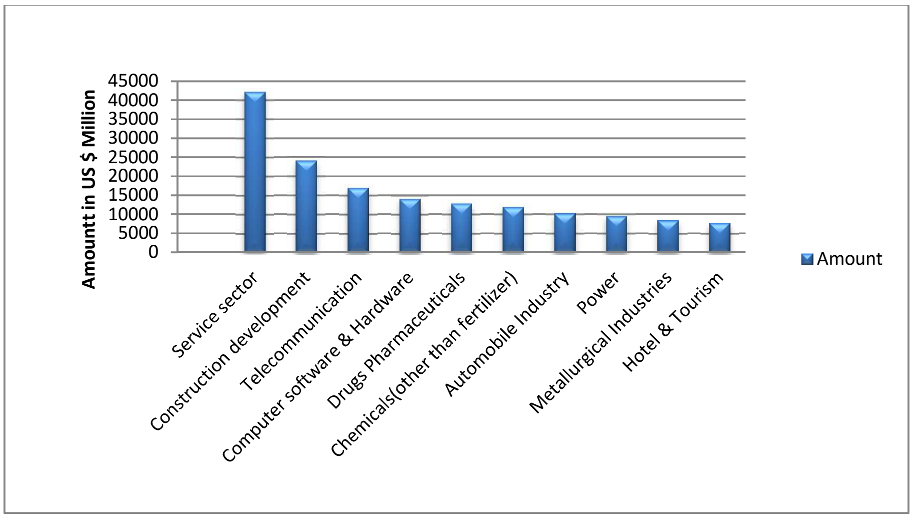


Table-7 demonstrates that 60 percent of FDI inflow seems to be concentrated among the top 10 sectors. The emergence of the service segment is clear from the table no. 7 by holding maximum share of 18.08 %. Other sectors in the list include construction development (8.82), computer software and hardware (7.11), telecommunication (6.83), Automobile industry (5.09) and so on.

CONCLUSION

Despite a surge in foreign investments, rigid FDI policies resulted in a significant hindrance. However, due to some positive economic reforms aimed at deregulating the economy and stimulating foreign investment, India has positioned itself as one of the front-runners of the rapidly growing Asia Pacific Region. FDI might prove to be an important source of financing the economic development of our nation. However, we must not forget that FDI alone can't be a solution for poverty eradication, unemployment and other economic ills. Thus India while holding on to its current policy of sector selective FDI, must be on lookout for broadening its base while keeping in mind our nation specific socio-economic constraints so that an all beneficial FDI may lead our nation to the path of progress.

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