



TRENDS AND PATTERNS OF FOREIGN DIRECT INVESTMENT IN INDIA: AN OVERVIEW

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Abstract:

The present study examined the trends and patterns of FDI Inflows in India using secondary data collected from the Reserve Bank of India (RBI), website of Department of Industrial Policy and Promotion, United Nations Conference for Trade and Development (UNCTAD), Secretariat for Industrial Assistance (SIA), The present study covers the period of 20 years from 2001 to 2020.. The study using relevant statistical tools like simple percentage, simple and Linear Growth Rate (LGR) and compound Growth rate. The study found that the FDI Inflows in India and the share of FDI was steadily increased throughout the study period. Mauritius is the top investing country in India which accounted as 26.76 percent during the whole study period. This governance of Mauritius is Double Taxation Treaty i.e. Double Taxation Avoidance Agreement (DTAA) between the both countries, which favor steering of investment through these two countries. The study also found that the two regions Mumbai and New Delhi received around 50 percent of the total FDI in India and the Service sector attracting the highest FDI inflows in India, the introduction of economic liberalization in 1991, the sectors such as Service, Computer Software and Hardware, Construction Development, Automobile Industry etc...have attracted huge amount of Foreign Direct Investment in India.

Keywords: FDI, India, Economic Development, Mauritius, Service sector, Economic Growth



I.Introduction

One of the key engine of globalisation is foreign direct investment (FDI). Foreign capital has become increasingly important in this globalised era for speeding up a country's trade and business activity, as well as boosting its part of international trade. FDI growth has acted as a spur for investment in developing countries in recent decades. Foreign direct investment (FDI) delivers much-needed finance, improved managerial skills, sophisticated marketing strategies, access to current technology, and worldwide connections. Since 1980, both rich and developing countries have attempted to attract FDI by implementing better deregulation policies and increasing their dependence on market forces in their economies.

Foreign Direct Investment (FDI) is a critical tool for economic development and prosperity. The majority of governments prioritized FDI improvement, particularly in low-income and transition economies. Foreign Direct Investment is beneficial not only because it stimulates capital development, but also because it has the potential to attract a large amount of capital (Gorg and Greenaway, 2004). FDI can transfer technologies and its spill over's affect domestic firms, which may make them more competitive and of a higher standard to that necessary to struggle with foreign firms and products. FDI can also bring positive externalities to the economy such as training and labour management opportunity from Multinational Companies. These may then be made generally available in the economy and lead to an increase in the standards of production.

Foreign Direct Investment is a component of a country's national financial accounts. Foreign direct investment is the investment of foreign assets into domestic structures, equipment, and organizations. It does not include foreign investment into the stock markets. Foreign direct investment is thought to be more useful to a country than investments in the equity of its companies because equity investments are potentially "hot money" which can leave at the first sign of trouble, whereas FDI is durable and generally useful. FDI motivate economic growth for every stage of development of a country. Developing countries experience both strong capital accumulation and technology transfer through FDI.

Foreign direct investment (FDI) in India has played a significant influence in the country's economic development. In many respects, foreign direct investment has helped India attain financial stability, growth, and progress. This money has allowed India to focus on the areas that



may have needed economic attention, and address the various problems that continue to challenge the country. India has made a concerted effort to attract foreign direct investment (FDI) from the world's biggest investors. In 1998 and 1999, the Indian national government launched a series of reforms aimed at attracting foreign direct investment and creating a favourable environment for businesses.

II. Review of Literature

This section of the paper presents a brief review of earlier work on the FDI Inflows in India and economic growth both at the national and international level and the same has been presented in the tabular form for better understanding.

Authors	Country	Econometric Tools	Result
Das (2020)	India 1970 to 2015	Growth rates and Compound annual growth rates	The study found that FDI inflows showed a substantial jump in the 1990s and became more intense since 2001. India's share in world FDI has been increasing over the years.
Rakhmatullayeva et.al 2020	Kazakhstan 2000-2017	Multiple Regression OLS	The analysis revealed that the presence of a positive relationship is not essential for assessing the growth of the national economy.
Dinh et.al (2019)	Developing countries 2000–2014	unit root test, Granger causality tests	The results of this study show that FDI helps stimulate economic growth in the long run
Babu (2018)	India 1990-1991 to 2014-2015	Unit root test, and Granger causality test	The results revealed that there was bi-directional causality between Foreign Direct Investment and exports



Dutta et.al (2017)	Bangladesh 1976–2014	Unit root tests, Granger causality tests	Results revealed unidirectional causality running from foreign direct investment to growth, The results support the investment complementarities in Bangladesh.
Murugesan (2016)	India 1990- 91 to 2011- 12,	annual growth rate, compound annual growth rate	The study found that the inflow of FDI has a significant effect on the economic growth of the nation.
Tanwar (2015)	India April 2000 to Nov 2013	Average Growth Rates and Compund Growth	The study concludes that Mauritius emerged as the most dominant source of FDI contributing
Vinay Kumar (2014)	India 2000 to June-2014	linear correlation analysis Karl Pearson's coefficient correlation	The study found that the Flow of FDI in India is showing a positive trend and is a very positive signal for Indian Economy.
Koojaroenprasit (2012)	South Korea 1980 to 2009	multiple regression	There is a strong and positive impact of FDI on South Korean economic growth
Nelson (2012)	India 1990- 91 to 2010- 11	co integration and error correction model	The study found that that there is positive relationship between foreign direct investment(FDI)investment and GDP

Objectives of the study

- To analyse the trends, growth and patterns of FDI inflows in India
- To analyse the countries and sectors attracting highest FDI inflows into India.
- To study the impact of FDI flows in India
- To suggest the strategy adopted to attract FDI in India.



III. Methodology

The present study completely relies upon the secondary data collected from the Reserve Bank of India (RBI), website of Department of Industrial Policy and Promotion, United Nations Conference for Trade and Development (UNCTAD), Secretariat for Industrial Assistance (SIA), The secondary data relating to various dimensions of FDI such as inflow of FDI into India. The present study covers the period of 20 years from 2001 to 2020. The study analyse in, year wise data, country wise and sector wise classification. The study use relevant statistical tools like simple percentage, simple and Linear Growth Rate (LGR), Kurtosis analysis.

IV. Discussion

Table.1 presents the Foreign Direct Inflows in India during the study period from 2000-01 to 2019-20. It could be noticed from the table that the FDI in India was 4031 Million US\$ in 2000-01 which increased to 74390 million US\$ in 2019-20. In the year 2006-07 the FDI Inflows into India had reached 22826 Million US\$. The FDI Inflows in India Started to rises more from 2006-07 registered as 22826 million US\$, the reason behind this remarkable increase us to liberalized the FDI policies adopted during these years. The decreasing trend in FDI Inflows in 2009 and 2010 due to with the effect of global financial crisis. After this the FDI Inflows in India grew tremendously. Because the government of India was initiated various FDI reforms and favorable measures in the past ten years. In order to induce the foreign investors to invest in India, which has helped to receiving the FDI in 749390 US\$ in 2019-20.

The annual average growth of FDI inflows India varied between 154.70 percent in 2006-07 and -29.14 percent in 2011-12. Annual growth was found negative in five years out of 20 years considered for the study. Similarly positive growth rate was observed for 15 years with a range of 154.70 percent in 2006-07 and 1.25 percent 2017-18. The mean growth of FDI was estimated at 6.94 percent and was further increasing at an average rate of 5.94 percent per annum during the study period from 2000-01 to 2019-20. The skew ness result found that 0.01 for the whole study period. Kurtosis analysis inferred that positive registered as 6.38 percent during the study period.



It could be noticed from the table that the share of FDI in India was estimated at 0.59 percent in 2000-01 which increased significantly to 10.89 percent in 2019-20. The share of FDI was steadily increased throughout the study period.

Table 1 FDI Inflows in India

year	FDI inflows	Growth	% Share
2000-01	4031		0.59
2001-02	6130	52.07	0.90
2002-03	5095	-16.88	0.75
2003-04	4322	-15.17	0.63
2004-05	6052	40.03	0.89
2005-06	8962	48.08	1.31
2006-07	22826	154.70	3.34
2007-08	34844	52.65	5.10
2008-09	41903	20.26	6.13
2009-10	37746	-9.92	5.53
2010-11	36047	-4.50	5.28
2011-12	46552	29.14	6.81
2012-13	34298	-26.32	5.02
2013-14	36047	5.10	5.28
2014-15	45147	25.24	6.61
2015-16	55559	23.06	8.13
2016-17	60220	8.39	8.82
2017-18	60974	1.25	8.93
2018-19	62001	1.68	9.08
2019-20	74390	19.98	10.89
TOTAL	683146		100
MEAN	34157.30	21.52	5
STDEV	22461.99	39.99	3.29
CV	0.66	1.86	0.66
LGR	5.84	0	0
Kurtosis	-1.14	6.38	-1.14
Skew	-0.01	2.10	1.52

Source: DIPP

Share of FDI Inflows in India and world

The share of FDI inflows of India in world FDI have been reported in the table 2 during the period from 2010 to 2019. India's share in world FDI inflows recorded consistently increased during the study period. It could be noticed from the table that India's share in world FDI was registered as



1.96 percent in 2010 which increased to 3.28 percent in 2019. In the year 2010 India's share of global FDI was 1.96 percent and this was increased significantly 3.16 percent in 2019. The average share of India in total FDI Inflows was estimated at 2.31 percent during the study period

Table 2 Share of FDI Inflows in India and world

YEAR	India	World	% Share
2010	27417.08	1396203.3	1.96
2011	36190.46	1615080.7	2.24
2012	24195.77	1493828.3	1.62
2013	28199.42	1456323.2	1.94
2014	34582.1	1403864.6	2.46
2015	44064.1	2041769.7	2.16
2016	44480.57	1983477.9	2.24
2017	39903.84	1700467.6	2.35
2018	42156.19	1495222.6	2.82
2019	50552.96	1539879.7	3.28
Total	371742.5	16126117	2.31

Source : UNCTAD

Table 3 Major Sources of FDI inflows from April 2000 to March 2020 (In US\$ million)

S.No	Country	FDI Inflows (In US\$ million)	% share
1	Mauritius	142710.4	30.35624
2	Singapore	97669.64	20.77551
3	Netherland	33852.04	7.200739
4	Japan	33499.21	7.125687
5	U.S.A	29779.4	6.334439
6	Others	132608.3	28.20738
	Total	470119	100

Source :DIPP



The table 3 shows that the share of top investing countries cumulative FDI Inflows in to India from April 2000 to March 2020. Mauritius is the largest investor in India. The highest investment 142710 million US\$ was invested by Mauritius in India which covers the 30.36 percent of the total investment of top investing countries in India Singapore is the second largest investing country in India which constitute 97669.64 (20.74 percent) of the total FDI in India. The other major investing countries are Netherland and Japan which accounted as 33852.04 million US\$ (7.20 percent) and 33499.21 Million US\$ (7.13 percent) from 2000 to 2020 respectively.

Chart-1- Major Sources of FDI inflows

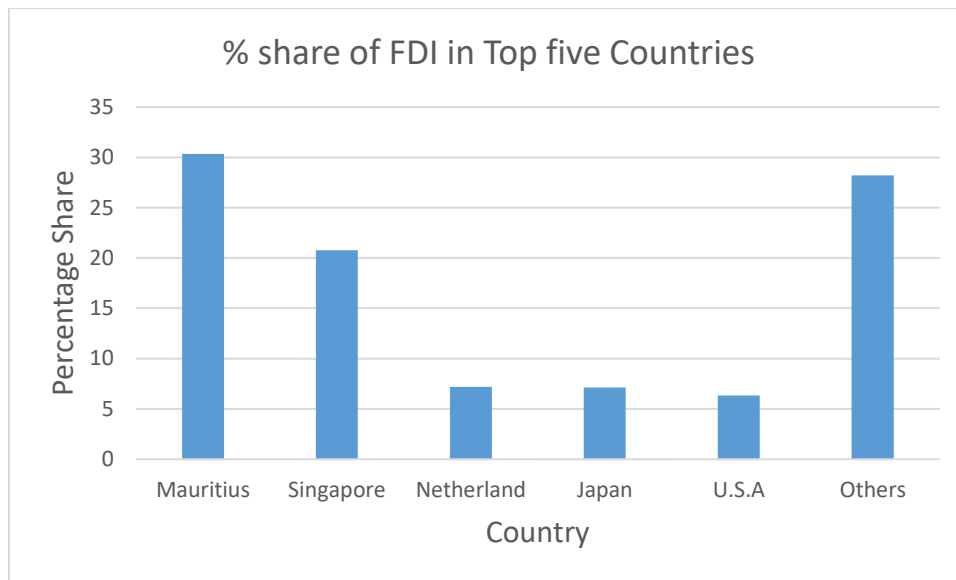


Table 4 Top Five Sector wise FDI in India from April 2000 to March 2020

S.NO	Sectors	(In US\$ million)	% share
1	Services Sector	82002.96	17.44302
2	Computer Software & Hardware	44911.21	9.553158
3	Telecommunications	37270.95	7.927982
4	Trading	27594.95	5.86978

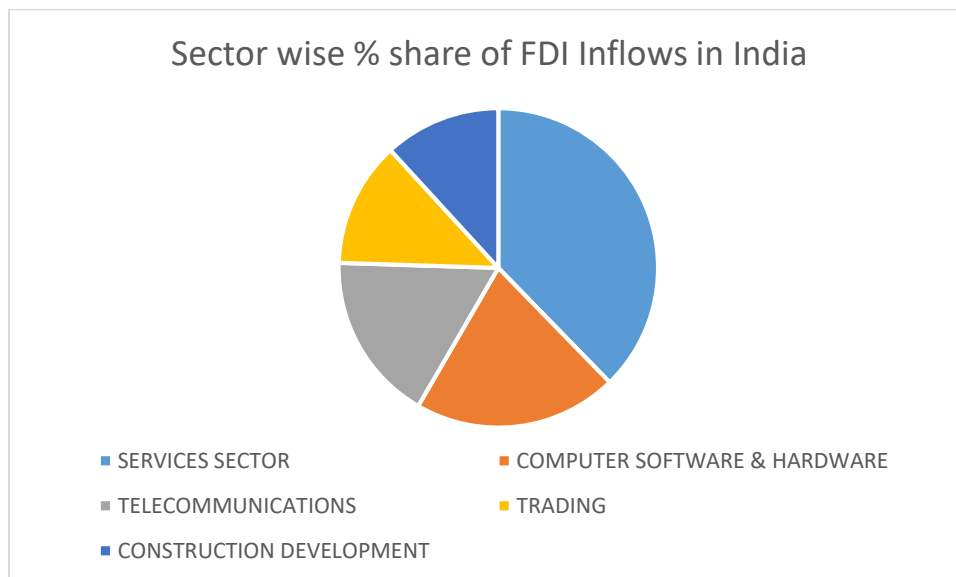


5	Construction Development	25662.33	5.458688
	Others	252676.6	53.74737
	Total	470119	100

Source : DIPP

The share of attracting FDI Inflows of top ten sectors of India have been presented in table 4 during the period from April 2000 to March 2020. It could be observed that the table, Service sector attracting the highest FDI inflows India which accounted as 17.44 percent (82002.96 Million US\$) of the total FDI inflows during the study period. Computer Software and Hardware are the important sector attracting the FDI in India which constitute 9.55 percent (44911.21 Million US\$) and telecommunication registered as 7.93 percent (37270.95) during the study period.

Chart-2 - Top ten Sector wise FDI in India



Region wise FDI inflows in India

Table 5 shows that the top ten region wise FDI inflows in India from April 2000 to March 2020. On the basis of Reserve Bank of India regional offices the country has divided into different regions. According this, India has divided into eighteen regions. It was evidenced from the table Mumbai region is the top of the table with FDI Inflows of 137972 million US\$ and accounted as



29.35 percent of total FDI in India. New Delhi received the second largest FDI Inflows which constitute 95785 Million US\$ that was 20.37 percent of total FDI Inflows in India. It was interesting that these two regions are accounted around fifty percent of the total FDI in India during April 2000 to March 2020. Another important regions are Bangalore and Chennai registered as 9.91 percent (46609 Million US\$) and 6.85 percent (32203 Million US\$) respectively. The two regions Mumbai and New Delhi received around 50 percent of the total FDI in India During the period from April 2000 to March 2020.

Table 5 Region wise FDI inflows in India

S.No	Region	FDI Inflows	% Share
1	MUMBAI	137972	29.34836
2	NEW DELHI	95784.77	20.37461
3	BANGALORE	46608.56	9.914219
4	CHENNAI	32202.52	6.849875
5	AHMEDABAD	26597.08	5.657529
	Others	130954.4	27.85556
	Total	470119.3	100

Chart 3- Region wise FDI inflows in India

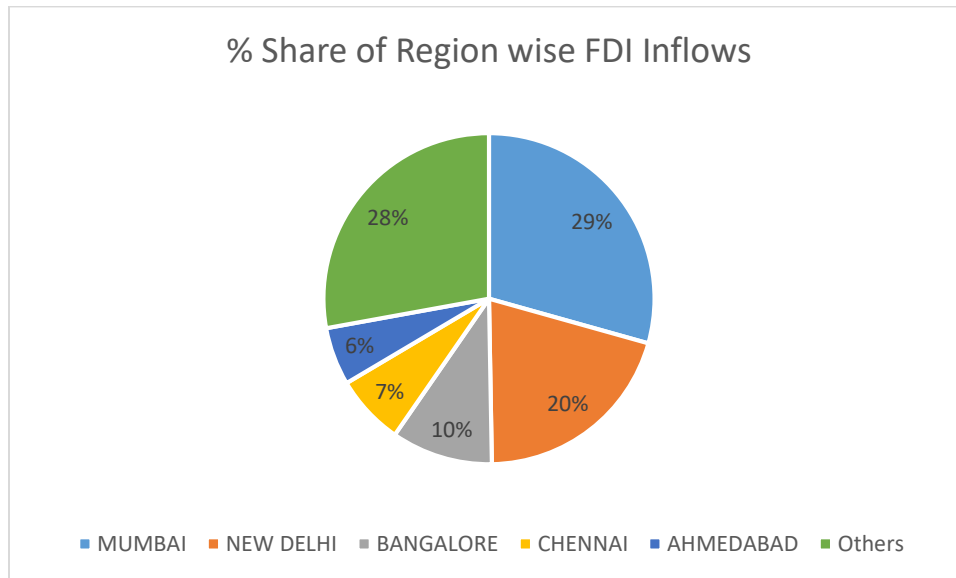


Table 6 - Share of Major country Wise FDI Inflows in India

Country	Mauritius	% Share	Singapore	% Share	U.S.A.	% Share	Netherlands	% Share	Japan	% Share
2010-11	6987	32.68	1705	7.97	1170	5.47	1213	5.67	1562	7.30
2011-12	9942	28.31	5257	14.97	1115	3.17	1409	4.01	2972	8.46
2012-13	9497	42.35	2308	10.29	557	2.48	1856	8.28	2237	9.98
2013-14	3678	15.14	3205	13.19	806	3.32	2270	9.34	1718	7.07
2014-15	9030	29.19	6742	21.80	1824	5.90	3436	11.11	2084	6.74
2015-16	8355	20.89	13692	34.23	4192	10.48	2643	6.61	2614	6.53
2016-17	15728	36.17	8711	20.04	2379	5.47	3367	7.74	4709	10.83
2017-18	15941	35.54	12180	27.15	2095	4.67	2800	6.24	1633	3.64
2018-19	8084	18.22	16228	36.58	3139	7.08	3870	8.72	2965	6.68
2019-20	8241	16.49	14671	29.36	4223	8.45	6500	13.01	3226	6.45
total	95483	26.76	84699	23.74	21500	6.03	29364	8.23	25720	7.21
MEAN	9548.30	27.50	8469.9	21.56	2150	5.65	2936.4	8.07	2572	7.37
STDEV	3738.38	9.40	5421.11	10.03	1332.61	2.49	1528.43	2.66	959.873	2.01



CV	0.39	0.34	0.64	0.47	0.62	0.44	0.52	0.33	0.373	0.27
CAGR	1.85	-7.32	27.02	15.58	15.33	4.95	20.51	9.66	8.392	-1.36

Source : DIPP

The share of FDI Inflows of top ten countries in India have been presented in the table 6 during the period from April 2010 to March 2019. It could be noticed from the table that Mauritius is the top investing country in India which accounted as 26.76 percent during the whole study period. The share of FDI inflows of Mauritius constitute 33.68 percent in 2010-11 and this was decreased to 16.49 percent in 2019-20. The share of Singapore in total FDI Inflows of India was 7.97 percent in 2010-11 which significantly increased to 29.36 percent. Singapore's FDI share was recorded as 23.74 percent during the period of 2010-11 to 2019 – 20. It was followed by USA the share of FDI which accounted 6.03 percent. The share of USA was registered 5.47 percent in 2010-11 which marginally increased to 8.45 percent in 2019-20. Netherland constituted the share of 5.67 percent in 2010 -11 and it was increased significantly to 13.01 percent in 2019-20. Japan's share into India was registered as 7.30 percent in 2010-11 which marginally decreased to 6.45 percent in 2019-20. The overall share of Japan was estimated at 7.21 percent over the study period

Conclusion

The expansion of Foreign Direct Investment inflows has a significant impact on any country's economic progress. The health of the economy is closely related to the soundness of its investment systems. The present study examined the trends in FDI Inflows in India using secondary data collected from the Reserve Bank of India (RBI), website of Department of Industrial Policy and Promotion, United Nations Conference for Trade and Development (UNCTAD), Secretariat for Industrial Assistance (SIA), The present study covers the period of 20 years from 2001 to 2020. The study analyse in, year wise data, country wise and sector wise classification. The study use relevant statistical tools like simple percentage, simple and Linear Growth Rate (LGR). The study found that the FDI Inflows in India and the share of FDI was steadily increased throughout the study period. Mauritius is the top investing country in India which accounted as 26.76 percent during the whole study period. This governance of Mauritius is Double Taxation Treaty i.e. Double Taxation Avoidance Agreement (DTAA) between the both countries, which favor steering of investment through these two countries. The study also found



that the two regions Mumbai and New Delhi received around 50 percent of the total FDI in India. Service sector attracting the highest FDI inflows India, the introduction of economic liberalization in 1991, the sectors such as Service, Computer Software and Hardware, Construction Development, Automobile Industry etc...have attracted huge amount of Foreign Direct Investment in India.

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