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Foreign Direct Investment In India: Trends And Determinants

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Abstract : *Foreign Direct Investment (FDI) refers the investment made by the host nation to native nations in the form of joint venture or by buying the purchasing of shares. Or in simple words, FDI (Foreign Direct Investment) refers to the investment made by foreign enterprises in enterprises of host countries. . The foreign investment through direct and indirect way. The Indirect Investment refers to the portfolio investment which means purchasing the stock of an enterprise investment in new issue. In other words portfolio investment defined as an investment made by individuals and firms in foreign financial instruments such as foreign stocks, government bonds etc. The indirect investment by foreign investors provide only a non-controlling interest in the company where the funds are invested but not include the production and distribution of goods and services. For example, investment in securities of a foreign company through stock exchange or under the ADRs (American Depository Receipts) and GDRs (Global Depository Receipts) mechanism. Direct investment defined as the investment in equity capital of a foreign company that gives control over the company management by the investors. The investment are made in open economies which offer above-average growth prospects for the investors.FDI establish either effective control or at least considerable impact over the decision-making. FDI is an investment made by a firm/individual into business interests, located in one country into interests located in another country. FDI takes place when an investor establishing ownership or controlling interest in a foreign company. The purpose of this paper is to examine the pattern and trends of the FDI inflows in India. For this purpose the data was taken from the period of 2000-2018 and AGR and CAGR were used to analyse the trends of FDI in India. The study shows the upward trends of FDI in India.*

Keywords: FDI, GDP.

INTRODUCTION : The real establishment of FDI would be looked for during the ruling of East India Company of Britain. In any case, researchers couldn't diagram the incomparable history of FDI driving in India thinking about nonappearance of vast and liberal data.However the researchers could not be able to give a clear picture about the historical pattern of foreign investment inflow in India is due to lack of reliable data. Earlier to freedom the large part of foreign direct investment derived from the corporations established by British government. Since World War II, Japanese companies entered Indian market and enhanced their trade with India. Since Independence the policy makers has attentions on various issues correlated to the MNCs operations and foreign capital. Looking into the national intrigues the government planned the FDI approach which focuses foreign direct investment as a mode for getting model setting improvement and to get ready for exchanging resources. According to Pt. Jawaharlal Nehru foreign investment is necessary for supplement the domestic capital, securing scientific and technical knowledge. Due to time to time economic and political changes there is a change in FDI policy also. In 1965 when industrial policy came into existence the government allowed MNCs to invest in India through technical collaboration. During the second five year plan (1956-61) the country faced the problem of shortage of exchange reserve and proper mobilization of resources. To come out from these crisis the government of India adopted liberalize policy by allowing more equity participation to foreign companies and accept equity capital in the form of technical collaborations. In order to attract more foreign capital the government also provide incentives to the foreign investors i.e. tax concessions, liberalize licensing and open door for foreign companies by de-reserving some industries. The main objective of de-reserving the some industries is to promote FDI in country. During 1970s government of India has adopted a selective and restrictive foreign investment policy. In order to encourage inflow of foreign investment in India Government setup Foreign Investment Board (FIB) and enacted Foreign Exchange

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Regulation Act (FERA). During 1980s due to rising the price of oil government make changes in the foreign policy and also introduce industrial sector reforms for stabling the FDI inflow.

In 90s when Indian economy facing the problem of balance of payment crisis, declining in export, increasing in external debt and rising in the price of petroleum due to gulf war, as a result of it there is declining in country's foreign currency reserve. Due to political instability in the country during that period the situation are gone worsen and in international market India's credit rating was fallen for borrowing. To secure the country's economy from this acute face, Dr. Manmohan Singh (Finance Minister at that time) in collaboration with World Bank and International Monetary Fund introduced the new industrial Policy, 1991. As a consequence of these developments India open its entrance to FDI inflows in order to restore the confidence of outside investors. The new foreign investment approach of Indian Government to create FIPB to invite foreign investment through single window structure. The limit of equity capital for foreign investors were raised to 51 percent for the present affiliations. Government had also permit the use of the name of foreign brand for domestically produced product. After becoming the member of MIGA (Multilateral Investment Guarantee Agency) the government make guidelines to safeguard the interest of foreign investors. Indian government also revised the FERA act 1973, in order to remove the restriction on the operations of Multinational Corporations. The government allowed to foreign investor as well as private sector to do business in different sectors like, mining, and banking, telecommunication and construction projects.

Need of FDI

Following points clears that why FDI needed at global level:-

- ✓ To increase investment by accompanying the domestic investment.
- ✓ Increase employment opportunities.
- ✓ To develop infrastructure and basic industries.
- ✓ For improving the managerial skills &business knowledge.
- ✓ To fulfill the capital need of risky project.
- ✓ For providing access to global markets.
- ✓ To improve technology.
- ✓ To increase exports and innovation.
- ✓ To gain competitive advantage
- ✓ To improve consumer welfare through reduced cost and good quality.
- ✓ To bring 4Es – Efficiency, Experience, equity and Expertise.

Determinants of FDI

The various factor which effect the flow of FDI in any countries include the following:

- ➢ **Market Size:**The size of the market is one of the main determinants which effect the flow of FDI in any nations. In developing countries there is a huge demand of consumer goods as a result of that these market possess substantial opportunities. Due to high demand and low level of supply these countries provide an opportunity for doing business, and attract large foreign investment.
- ➢ **Political Instability:** Political instability in many countries are one of the main factor with restrict the flow of foreign investment in these countries because foreign investor has the fear loss due to irregular change in policies.

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- **Impact of Macro-Economic Variables:** The other factor that affect the flow of FDI in any country are change in price level, unstable exchange rate and change in interest rates etc. These factors increase the perceived risk of foreign investors and adversely affect the flow of foreign direct investment.
- **Lack of Basic input:** In developing countries like India, there is a large reserve of workforce either skilled or unskilled, but in these countries wage level is significantly lower than developed countries. Thus there is huge opportunity for MNCs to make investment in these countries.
- **Low Labour cost:** It is one of the key determinants that affects overseas investor's outlay decisions. Availability of skilled labour force with low labour cost attracts the FDI inflows. In addition to it, labour productivity, labour market conditions and unemployment etc. also attracts MNCs to invest in the host country for better returns.
- **Economic Stability and Growth Prospectus:** Foreign investors prefers to invest in countries with stable economic and socio policies. Rapidly growing host economies attracts the MNCs to invest in host country by providing various opportunities to earn profit.
- **Other Economic Factors:** other economic factors include interest rates, rate of return on investment, grants, subsidies, tax breaks, foreign exchange reserves etc. A low inflation rate attracts more FDI as comparison to higher inflation rate.

Literature Review

Goel S., Kumar K. and Rao K. (2012) in their paper "trends, pattern & determinants of FDI and evaluate the impact of FDI on the economy". The researcher found that Trades GDP, Reserve GDP, Exchange Rate, R & DGDP and FDGI are the main determinants of FDI and FDI was a significant factor influencing the level of economic growth in India.

Pant S. and Bansal M. (2015) in their study examined the trends of FDI and FII flow in India and also discuss the merits and demerits of FDI in economy. To determine the relationship between FDI, FII and GDP growth rate (%)they used the correlation factor in his study. The researcher found that FDI has a low positive correlation in the growth while FII has a moderate positive correlation on the growth of the country.

Vyas A. (2015) in his paper he focused on the "trends of FDI inflows to India". The researcher found that service sector is first & banking and insurance sector was second fragment of which pick the growth in second decade of reforms. Mauritius and Singapore is the two top nations which has the maximum FDI in India.

Jaynder U. (2015) in her study analysed the trends of FDI inflows in the service sector in India and trying to found the relationship between the policy changes of the Govt. of India with regards to the service sector and its effect on the inflows of FDI. The researcher found that there is a positive correlation between the FDI inflows into service sector and the shares of GDP of service sector.

Nair S. (2015) in his study analysed the "trends of flow of FDI in India's-Post reforms era and also analyse the relationship between FDI and economic growth of the country to evaluate the impact of FDI on the Stock Market of India". The researcher found that there is a strong positive correlation between FDI and GDP growth of India and also found that there is a strong positive correlation between FDI flow and BSE SENSEX movements and GDP and stock movements were dependent to a great extent to the FDI inflows into the country.

Kumar D., Rao S. and Shriwas S. (2019)investigate the trends of FDI in India and also trying to find out the impact of Make in India policy on FDI inflow in India. The study found that there has been a positive impact of Make in India policy towards FDI flow in India.

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Kumar U. (2019) in his study he analysed the "trends of FDI flows into the country and to find out the relation between FDI,FII and GDP of the country". The researcher found that there are always a positive trends of FDI in India, positive relationship between FDI and GDP where as a weak positive correlation between FDI and FII.

Objectives of the Study

Following are the objectives:-

- To study the trends of GDP and Net FDI in India for the last ten year (2008 - 2018).

Research Methodology

The study was descriptive in nature and based on secondary data which has been collected out of the reviews of the past research papers, national journals and other reports.Statistical tools like descriptive statistics, Trend Analysis, AGR and CGRA are used in the study.

Tools to be used

For getting the desired results for accomplishment of the objective of the study following mathematical and statistical tools are used by the researcher.

- Mean, S.D. and percentage have been used by the researcher for calculating the growth rate and progress of foreign direct investment inflow in India. To represent the data more clearly line chart have also been used.
- Simple average/ Mean is computed by using the following formula:

Mean ($\bar{X}$) = $\frac{x1+x2+x3+\cdots xn}{n} = \frac{\Sigma x}{N}$

Where,

Σx= Sum of all the values of x

N = Number of Observations.

- Formula for calculating the Standard deviation is :

S.D. = $\sqrt{\frac{x^2}{N} - \bar{x}}$

Where,

$\bar{x}$= mean

N = number of items.

- Formula for calculating Growth rate is:

(AGR) = $\frac{(X1-X2)}{X1}$

Where,

X1 = First value of variable X

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X2 = Second value of variable.

- To calculate the (CAGR), following formula is used:

$$\text{CAGR} = \left[\frac{\text{The Value at the end of the Period}}{\text{value at the end of the Period}}\right] \text{to the power of } \frac{1}{\text{Last year} - \text{First year}} - 1$$

DATA ANALYSIS AND INTERPRETATION

1.1. GROWTH PATTERNS OF FDI INFLOWS IN INDIA.

India had adopted the economic reforms with the introduction of new economic policy of Liberalization, Privatization and Globalization, 1991. FDI regulation and liberalization was one of the key components of new economic policy. India had open the doors for outside investor to invest in India and change the perception of foreign investors towards India. During the initial years, there are huge gap between the approved and actual foreign direct investment received by the nation.

Table 1: Growth Pattern of FDI Inflows in India

Years	FDI Inflows	% Growth over last year
2000	149.24	
2001	226.30	51.63
2002	155.94	-31.09
2003	109.44	-29.82
2004	167.45	53.01
2005	134.25	-19.83
2006	349.10	160.04
2007	637.76	82.69
2008	1001.06	56.96
2009	859.83	-14.11
2010	541.01	-37.08
2011	1031.67	90.69
2012	1081.86	4.86

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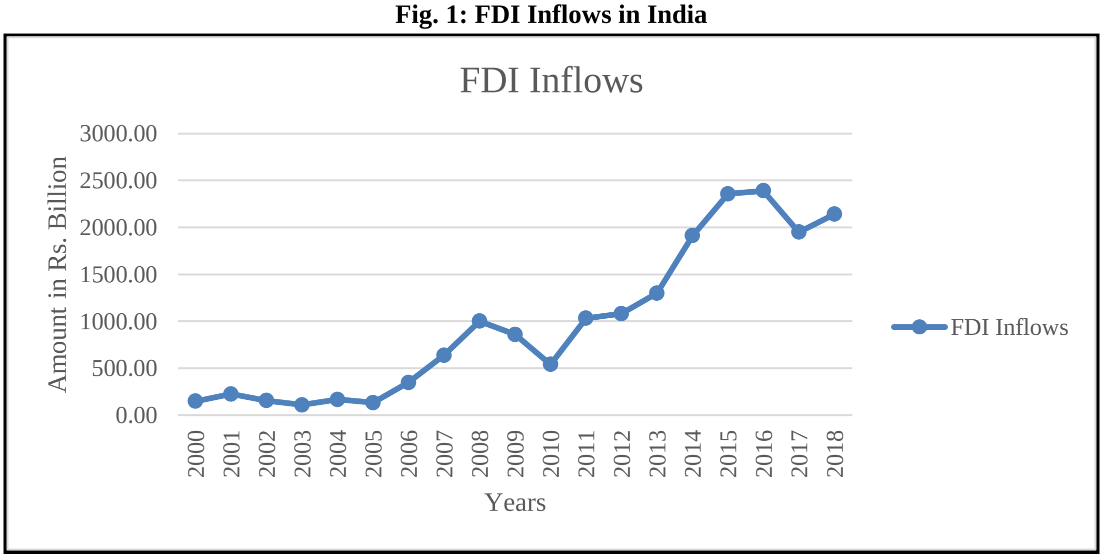
2013	1299.69	20.14
2014	1912.19	47.13
2015	2357.82	23.30
2016	2389.13	1.33
2017	1950.52	-18.36
2018	2140.36	9.73
Cumulative Inflows (2000-2018)	**18494.62**	**CAGR= 15.047%**

Source: Fact sheet on Foreign Direct Investment (FDI), 2018-19, DIPP".

Table 1 depicts the net FDI inflow in India for 2000 to 2018 and also shows the percentage changes from the last year. It is evident from the table that total cumulative inflows of foreign direct investment were Rs. 18494.62 billion for the period from 2000 to 2018. The compound annual growth rate of Net FDI inflow was 15.047 per cent. Figure 1 shows that India had a fluctuating trend of FDI inflow during 2000 to 2010, but after 2010 total net FDI in India showing increasing trend. After 2008 the FDI inflow has suddenly fall which was due to 2008 financial crisis prevailing in East Asian economies, but in the following years, FDI in India rose in spite of declining trend in world FDI. Further it is interesting to note that FDI inflow during 2006 have been increased with a historic highest growth rate of 160.04 per cent as compared to previous year. It was due to the economic boom in most countries including India which can be seen from substantial increase in international FDI inflows. The table also shows that despite of global crisis, FDI showed a positive trend during 2008-09 with an increase of FDI to Rs. 1001.06 billion, however impact of global financial crisis has been observed in 2009 and 2010 respectively.

Fig. 1: FDI Inflows in India



Source: Data compiled from Table 1

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Figure 1 shows the year wise actual net inflow of FDI in India from 2000-2018. It is found that a very low amount of FDI was received during 2000-2005 and after that went ahead with a high growth rate on investors map. The figure also shows an upward increasing trend during the period of 2000 to 2018 except in years 2003, 2010 and 2017 when they declined, but gained momentum every time. Overall it is seen from the line chart that FDI inflow in India has fluctuation trend.

FINDING AND SUGGESTIONS

Findings of the Study:

- Table 1, resulted that total cumulative inflow of FDI from 2000 to 2018 were Rs. 18494.62 billion and the Compound Annual Growth Rate (CAGR) was 15.047 per cent. The table shows that there is a fluctuating trend in total FDI inflow, which is due to various policies and strategies made by government for promoting FDI from time to time. Recently Government of India has made various decision for promoting FDI inflow in the country. It is clearly shows from the fig. 1 that India has fluctuation but increasing trend during the study period.

Suggestions

- The study recommend that government of India also liberalize rules and regulation related to investment by foreign investor's so that large number of foreign investors came forward to invest in our country.
- The policy maker should also design policies where foreign investment can be utilized as means of enhancing domestic saving, production and growth of exports business.
- It is also suggested that government should improve infrastructure sector which is essential for diversification of business activities.
- It is also suggest that govt. should ensure equal distribution of foreign direct investment inflow among states, so that equally growth opportunities are available in all states.
- Finally it is suggested that, government should ensure optimum utilization of funds come through foreign investment and timely implement the projects. It is also suggest that government while making prudent policies must also exercise strict control over redtapism and corruption, so that foreign investors' confidence can be maintained.

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