

## Trend of Foreign Direct Investment in India: An Analysis

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### ABSTRACT

Developed countries have openly supported to foreign direct investment. The result of foreign direct investment is in front of everyone today. The economy of these countries is very strong. In today's time, the foreign direct investment is very beneficial for any country. Foreign direct investment gives a lot of monetary and non-monetary benefits to that country. The most important benefit of foreign direct investment is the increase in the amount of capital. This paper discusses about the trend of total FDI equity inflows in India during 2009-10 to 2018-19 or tenure of UPA Government VS NDA Government. Further, this paper also present route wise trend of FDI equity inflows in India, trend of top five sectors which attracting highest FDI equity inflows in India and trend of FDI equity inflows to India by top five countries during 2009-10 to 2018-19.

### 1. Introduction

When a company or organization of one country is invested in another country. Whereby the investor gets some control in management that company in which, he is invested. Such investment is called foreign direct investment (FDI). Developed countries have openly supported to foreign direct investment. The result of foreign direct investment is in front of everyone today. The economy of these countries is very strong. In today's time, the foreign direct investment is very beneficial for any country. Foreign direct investment gives a lot of monetary and non-monetary benefits to that country. The most important benefit of foreign direct investment is the increase in the amount of capital. Many types of benefits of foreign direct investment such are technical support, labour at cheap prices and increase in foreign currency etc.

In the year 1991, for improving the economy of India, the finance minister of that time Dr. Man Mohan Singh adopted a policy of privatization, globalization and liberalization. Then foreign direct investment started in India. In 1991-92, the total FDI equity inflows was 409 crores, which was 309866.64 crores in 2018-19. From 1991 to 2019, there was 757.62 times increase in total FDI equity inflows in India. A very little attention was firstly paid in India on foreign direct investment. But now in view of its usefulness, the government is doing important work in this field.

The Government of India has prepared a framework on foreign direct investment, which is updated time to time by Department of Industrial Policy and Promotion (DIPP). At now, Consolidated FDI policy circular of 2017 is applicable. DIPP is the nodal department for preparing government policy on foreign direct investment. DIPP makes policy announcement on foreign direct investment through press notes / press release, which are notified by the Reserve Bank of India as amendments to FEMA regulations. DIPP is also responsible for the maintenance and management of data on FDI inflows in

India based on the reported by Reserve Bank of India. Foreign direct investment may be received by an Indian company under the two routes such as Government route and Automatic route. Under the automatic route, there does not require prior approval of government. But under the government route, there requires prior approval of government. The Government of India has set up the competent authorities to grant permission to various sectors where the government approval is required. Such are, for Broadcasting and print media sector is Ministry of Information and Broadcasting, for banking sector is Department of Financial Services and for Private Security Agencies is Ministry of Home Affairs etc.

### 2. Review of Literature

Jain, Dr. Kaustubh and Lodhi, Girbal Singh (June, 2013) their paper named "Foreign Direct Investment in India: A Critical Analysis" find out that the economic growth model show that FDI was a vital and significant factor influencing the level of growth in India. And all variables such as trade GDP, R&D GDP, financial position, exchange rate and reserves GDP were the important macroeconomic determinants of FDI inflows in India. It had been also noted that FDI has helped several countries when they faced economic hardship. Their time period of the study was from 1992 to 2011.

Duggal, Anil (Dec., 2017) his paper "Foreign Direct Investment in India" highlights that the total foreign direct investment inflows in India was US\$ 6051 million in 2005, which was US\$ 60082 million in 2017. It is a long journey of 13 years and represents an increase of 9.92 times. There is a significant relationship between FDI and FIPB, RBI and other routes. His time period of the study was 13 years from 2005 to 2017.

### 3. Research Methodology

#### 3.1 Objectives of the study:

The present study will be based on the following objectives:

- To study and analyze the trend of total FDI equity inflows in India during the selected period.
- To study and analyze the trend of FDI equity inflows through various routes in India during the selected period.
- To study and analyze the trend of top five sectors which attracting highest FDI equity inflows in India during the selected period.
- To study and analyze the trend of top five countries which made highest FDI equity inflows to India during the selected period.

#### 3.2 Sources of data

The present study is mostly based on secondary data. The data are collected from DIPP's FDI data base, RBI bulletins, various news reports, internet link, various website and consolidated FDI policy 2017.

#### 4. Data Analysis

#### 3.3 Time period of the study

The period of study is ten years from 2009-10 to 2018-19 or tenure of UPA government (2009 to 2014) VS NDA government (2014 to 2019).

#### 3.4 Techniques used for analysis

Statistical techniques like mean, standard deviation and co-efficient of variation and accounting techniques such as trend ratio have been used for analysis and interpretation of data.

#### 3.5 Limitation of the Study

- This study is based only on secondary data.
- Here only a period of 10 years or 2009-10 to 2018-19 has been studied.
- Here only top five sectors which attracting highest FDI equity inflows in India have been studied.
- Here only top five countries which made highest FDI equity inflows to India have been studied.

Table No. 1

| Total FDI Equity Inflows (UPA Govt.) |                  |             | Total FDI Equity Inflows (NDA Govt.) |                   |             |
|--------------------------------------|------------------|-------------|--------------------------------------|-------------------|-------------|
| Financial Year                       | Amount           | Trend Ratio | Financial Year                       | Amount            | Trend Ratio |
| 2009-10                              | 123377.73        | 100         | 2014-15                              | 189107.09         | 100.00      |
| 2010-11                              | 88519.36         | 71.75       | 2015-16                              | 262321.59         | 138.72      |
| 2011-12                              | 165145.50        | 133.85      | 2016-17                              | 291696.31         | 154.25      |
| 2012-13                              | 121906.74        | 98.81       | 2017-18                              | 288888.51         | 152.76      |
| 2013-14                              | 147517.79        | 119.57      | 2018-19                              | 309866.64         | 163.86      |
| <b>Total</b>                         | <b>646467.12</b> |             |                                      | <b>1341880.14</b> |             |
| <b>Average</b>                       | <b>129293.42</b> |             |                                      | <b>268376.03</b>  |             |
| <b>S.D.</b>                          | <b>25959.90</b>  |             |                                      | <b>42441.23</b>   |             |
| <b>C.V. (%)</b>                      | <b>20.08</b>     |             |                                      | <b>15.81</b>      |             |

Sources: Various Issues of DIPP-SIA News Letter on FDI

**Interpretation:** It is evident from the table no. 1 that during the tenure of UPA government (2009 to 2014), the total FDI equity inflows in India was 646467.12 crores. During the tenure of UPA government, there was a tendency to increase and ever decrease in FDI equity inflows in India. During the tenure of NDA government (2014 to 2019), it was 1341880.14 crores. During the tenure of NDA government, there was a tendency to increase in FDI equity inflows except for the year 2017-18. The maximum FDI equity inflows during the tenure of UPA government was in 2011-12, which was 165145.50 crores and during the tenure of NDA government, it was maximum in 2018-19, which was 309866.64 crores. It Shows that during the tenure of UPA government, co-efficient of variation in total FDI

equity inflows was 20.08%. And during the tenure of NDA government, it was 15.81%. Trend ratio was 100 in 2009-10 but decline has been sought out in 2010-11 as 71.75. But, in 2011-12 it has again gone up i.e., 133.85. there after it has also decline in 2012-13. But, in 2013-14 it has again gone up. It means there was fluctuating trend during 2009-10 to 2013-14. During the 2014-15 to 2018-19, there was a tendency to increase in trend ratio except for the year 2017-18, which was 152.76. In 2018-19, there was maximum trend ratio, which was 163.86. Compared to the tenure of UPA government, the total FDI equity inflows increased 107.57% in the tenure of NDA government.

Table No. 2

Amount in Rs. Crores

| Route Wise FDI Equity Inflows (UPA Govt.) |                  |                      |                            |                        |
|---|------------------|----------------------|----------------------------|------------------------|
| Financial Year                            | 1<br>Govt. route | 2<br>Automatic Route | 3<br>Acquisition of Shares | (1+2+3)<br>Grand Total |
| 2009-10                                   | 16728.20         | 91335.40             | 15314.13                   | 123377.76              |
| 2010-11                                   | 8833.28          | 59142.93             | 20543.15                   | 88519.36               |
| 2011-12                                   | 14151.97         | 97153.90             | 53839.63                   | 165145.50              |
| 2012-13                                   | 15847.58         | 86806.37             | 19252.79                   | 121906.74              |
| 2013-14                                   | 7105.54          | 90129.37             | 50282.88                   | 147514.79              |

Sources: Various Issues of DIPP-SIA News Letter on FDI

Table No. 3

Amount in Rs. Crores

| Route Wise FDI Equity Inflows (NDA Govt.) |                  |                      |                            |                        |
|---|------------------|----------------------|----------------------------|------------------------|
| Financial Year                            | 1<br>Govt. route | 2<br>Automatic Route | 3<br>Acquisition of Shares | (1+2+3)<br>Grand Total |
| 2014-15                                   | 13402.31         | 138160.88            | 37543.90                   | 189107.09              |
| 2015-16                                   | 23366.30         | 213090.73            | 25864.56                   | 262321.59              |
| 2016-17                                   | 39661.05         | 204129.01            | 47906.25                   | 291696.31              |
| 2017-18                                   | 49953.02         | 190637.45            | 48298.04                   | 288888.51              |
| 2018-19                                   | 16652.54         | 253853.30            | 39360.80                   | 309866.64              |

Sources: Various Issues of DIPP-SIA News Letter on FDI

Interpretation: It is evident from the table no. 2 and 3 that during the tenure of UPA government (2009 to 2014), the highest FDI equity inflows in India through automatic route was received in 2011-12, which was 97153.90 crores and during the tenure of NDA government (2014 to 2019), it was received in 2018-19, which was 253853.30 crores. During the tenure of UPA government, the total FDI equity inflows through automatic route in India was received 42456.97 crores and during the tenure of NDA government, it was received 999871.37 crores. During the tenure of UPA government FDI

equity inflows in India was received 9.69% through government route, 65.68% through automatic route and 24.63% through acquisition of shares. Another way, during the tenure of NDA government, it was received 10.66% through government route, 74.51% through automatic route and 14.83% through acquisition of shares. Compared to the tenure of UPA government, the total FDI equity inflows through automatic route increased 135.507% in the tenure of NDA government. FDI equity inflows in India through automatic route was higher compared to another route during both governments tenure.

Table No. 4

Amount in Rs. Crores

| Top Five Sectors Attracting Highest FDI Equity Inflows (UPA Govt.) |                            |          |          |          |          |          |           |                               |
|--|----------------------------|----------|----------|----------|----------|----------|-----------|-------------------------------|
| S.No.  | Sector                     | 2009-10  | 2010-11  | 2011-12  | 2012-13  | 2013-14  | Total     | % of Total FDI Equity Inflows |
| 1  | Services Sector            | 20958.12 | 15538.64 | 24656.49 | 26305.95 | 13294.41 | 100753.61 | 15.59%                        |
| 2  | Construction Activities    | 13544.49 | 5076.99  | 15236.03 | 7247.79  | 7508.36  | 48613.66  | 7.52%                         |
| 3  | Telecommunications         | 12338.32 | 7542.04  | 9011.53  | 1654.30  | 7987.28  | 38533.47  | 5.96%                         |
| 4  | Automobile Industries      | 5609.20  | 6008.29  | 4346.77  | 8384.37  | 9026.58  | 33375.21  | 5.16%                         |
| 5  | Food Processing Industries | 1316.27  | 858.03   | 826.17   | 2193.65  | 25106.77 | 30300.89  | 4.69%                         |

Sources: Various Issues of DIPP-SIA News Letter on FDI

Table No. 5

Amount in Rs. Crores

| Top Five Sectors Attracting Highest FDI Equity Inflows (NDA Govt.) |                           |          |          |          |          |          |           |                               |
|--|---------------------------|----------|----------|----------|----------|----------|-----------|-------------------------------|
| S.No.  | Sector                    | 2014-15  | 2015-16  | 2016-17  | 2017-18  | 2018-19  | Total     | % of Total FDI Equity Inflows |
| 1  | Services Sector           | 19962.48 | 45415.10 | 58213.56 | 43249.01 | 63909.44 | 230749.59 | 17.20                         |
| 2  | Comp. Hardware & Software | 13564.27 | 38351.23 | 24605.16 | 39669.75 | 45297.17 | 161487.58 | 12.03                         |
| 3  | Telecommunications        | 17372.32 | 8637.38  | 37435.16 | 39748.20 | 18336.79 | 121529.85 | 9.06                          |
| 4  | Trading                   | 16961.85 | 25243.92 | 15720.89 | 28077.93 | 30963.46 | 116968.05 | 8.72                          |
| 5  | Construction Activities   | 5311.91  | 29841.74 | 12478.00 | 17570.65 | 15926.94 | 81129.24  | 6.05                          |

Sources: Various Issues of DIPP-SIA News Letter on FDI

Interpretation: It is evident from the table no. 4 and 5 that during the tenure of UPA government (2009 to 2014), the highest FDI equity inflows in India was received in service sector, which was 15.59% of total FDI equity inflows in India and during the tenure of NDA government it was also received highest in service sector, which was 17.20% of total FDI equity inflows in India. Apart from this, during the tenure of UPA government, it was received maximum respectively 7.52% in construction activities, 5.96% in telecommunication sector, 5.16% in automobile industries and 4.69% in food processing industries. Another hand, during the tenure of NDA government, it was received maximum respectively 12.03% in computer hardware and software sector, 9.06% in telecommunication sector, 8.72% in trading sector and 6.05% in construction activities. In 2013-14, attracting highest FDI

equity inflows in food processing industries, which was 17.02% of total FDI equity inflows in India. FDI equity inflows in service sector was highest in 2012-13, which was 21.58% of total FDI equity inflows in India. It was higher compared to other sectors during both governments tenure. During the tenure of UPA government, total FDI equity inflows from top five sectors was 38.92%. But during the tenure of NDA government, it has been increased to 53.06% and remaining 46.94% received to other sectors. Computer hardware and software sector and trading sector were successful in making the place in top five sectors, during the tenure of NDA government. Construction activities was second highest FDI sector in 2009-10 to 2013-14, but in 2014-15 to 2018-19 it came down to fifth position. Service sector was successful in making the first position during both government tenure.

Table No. 6

Amount in Rs. Crores

| Top Five Investing Countries to India in FDI Equity Inflows (UPA Govt.) |             |          |          |          |          |          |           |                               |
|---|-------------|----------|----------|----------|----------|----------|-----------|-------------------------------|
| S.No.   | Country     | 2009-10  | 2010-11  | 2011-12  | 2012-13  | 2013-14  | Total     | % of Total FDI Equity Inflows |
| 1   | Mauritius   | 49633.37 | 31854.78 | 46710.28 | 51653.86 | 29360.31 | 209212.60 | 32.36                         |
| 2   | Singapore   | 11294.82 | 7729.66  | 24711.53 | 12594.49 | 35624.61 | 91955.11  | 14.22                         |
| 3   | U.K.        | 3094.15  | 3434.20  | 36427.70 | 5797.37  | 20426.34 | 69179.76  | 10.70                         |
| 4   | Japan       | 5670.40  | 7062.98  | 14089.09 | 12243.42 | 10549.58 | 49615.47  | 7.67                          |
| 5   | Netherlands | 4282.67  | 5501.23  | 6697.78  | 10053.72 | 13919.72 | 40455.12  | 6.26                          |

Sources: Various Issues of DIPP-SIA News Letter on FDI

Table No. 7

Amount in Rs. Crores

| Top Five Investing Countries to India in FDI Equity Inflows (NDA Govt.) |             |          |          |           |           |           |           |                               |
|---|-------------|----------|----------|-----------|-----------|-----------|-----------|-------------------------------|
| S.No.   | Country     | 2014-15  | 2015-16  | 2016-17   | 2017-18   | 2018-19   | Total     | % of Total FDI Equity Inflows |
| 1   | Singapore   | 41350.14 | 89509.74 | 58375.68  | 78541.81  | 112362.09 | 380139.46 | 28.33                         |
| 2   | Mauritius   | 55171.97 | 54705.95 | 105587.30 | 102492.01 | 57138.65  | 375095.88 | 27.95                         |
| 3   | Netherlands | 20959.79 | 17275.24 | 22633.40  | 18048.38  | 27036.17  | 105952.98 | 7.90                          |
| 4   | Japan       | 12751.83 | 17275.49 | 31588.29  | 10370.52  | 20555.98  | 92542.12  | 6.90                          |
| 5   | U.S.A.      | 11149.66 | 27695.13 | 15956.65  | 13505.40  | 22335.06  | 90641.90  | 6.75                          |

Sources: Various Issues of DIPP-SIA News Letter on FDI

Interpretation: It is evident from the table no. 6 and 7 that during the tenure of UPA government (2009 to 2014), the highest FDI equity inflows in India was received from Mauritius, which was 32.36% and during the tenure of NDA government, it was received highest from Singapore, which was 28.33% of total FDI equity inflows in India. Apart from this, during the tenure of UPA government, it was received maximum respectively 14.22% by Singapore, 10.70% by UK, 7.67% by Japan and 6.26% by Netherlands. Another hand, during the tenure of NDA government, it was received maximum respectively 27.95% by Mauritius, 7.90% by Netherlands, 6.90% by Japan and 6.75% by USA. FDI equity inflows from Mauritius was highest in 2012-13, which was 42.37% of total FDI equity inflows in India. FDI equity inflows from Singapore was highest in 2018-19, which was 36.26% of total FDI equity inflows in India. During the tenure of UPA government, total FDI equity inflows from top countries was 71.21%. But during the tenure of NDA government, it has been increased to

77.83% and remaining 22.17% received from other countries. USA was successful in making the place in top five countries which made highest FDI equity inflows to India, during the tenure of NDA government. Netherlands was fifth highest FDI sector in 2009-10 to 2013-14, but in 2014-15 to 2018-19 it came up to third position. Japan was successful in making the consistent forth position during both governments tenure. UK which has third position during the tenure of UPA government, was removed from top five countries during the tenure of NDA government.

## 5. Findings and Conclusion

Foreign direct investment is an indicator of progress in any country's economy. In India, total FDI equity inflows in the year 1991-92 was 409 crores, which increased to 309866.64 crores in 2018-19. From 1991 to 2019 FDI equity inflows has increased 757.62 times. During the NDA government, total FDI equity inflows is 1341880.14 crores, which was 107.57% higher

than the UPA government tenure. There is fluctuating trend in total FDI equity inflows in India during the tenure of UPA government. During the 2014-15 to 2018-19, there is a tendency to increase in trend ratio except for the year 2017-18. FDI equity inflows in India through automatic route is higher compared to another route during both governments tenure. Compared to the tenure of UPA government, the total FDI equity inflows through automatic route is increased to 135.507% in the tenure of NDA government. This indicates that the NDA government has adopted liberal policy to attract more FDI equity inflows. During the tenure of both governments, highest FDI equity inflows is in service sector, which is 15.59%

during the tenure of UPA government and 17.20% during the tenure of NDA government. Both governments have paid more attention on the service sector. During the tenure of NDA government, co-efficient of variation in total FDI equity inflows is less than co-efficient of variation in FDI equity inflows during the tenure of UPA government. It shows that during the tenure of NDA government, total FDI inflows is stable, consistence and unitary. The Government of India should be relaxing in foreign direct investment through government route to make foreign direct investment attractive. At the time, in the sector where the government approval is required, all facilities related to approvals will being brought under a roof.

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