

The Inflow of Foreign Direct Investment in India: A Trend Analysis

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Abstract:

The inflow of foreign direct investment in India over the years has been increasing. The FDI has played significant role in the growth of Indian economy. The inflow of FDI is influenced with the profitability of a particular industry. The increasing economic opportunities in Indian industries have attracted the FDI from various parts of the world. The government of India also has made smooth and flexible provisions to attract FDI in Indian industries. This research paper explains the trend of inflow of foreign direct investment in India in the recent period.

Keywords: *Structural adjustment, globalization, software industry, telecommunication industry, structural change*

1. Introduction:

The Indian industries have gone through several phases of development. The government of India has made several protective provisions for the development of Indian industries over the years. Initially, the government policies towards foreign investment were rigid. However, the phase of globalization in India has made several changes in Indian economic policies towards foreign investment. The flexibility of economic policies has attracted foreign direct investment in Indian. The foreign direct investment (FDI) has brought several positive changes in Indian economy, especially in various industries. The structural adjustments introduced in the year 1991 have brought basic changes in the industrial structure in India. The government of India has launched several economic policies under the structural adjustments, which have influenced Indian industries in a positive and negative way. The new economic reforms or structural adjustments brought drastic structural changes in several industrial sectors and further promoted economic activities. Some of the scholars have criticized the new economic reforms by giving several evidences of Indian industries. However, many of the scholars also have argued these reforms as favourable for economic growth of India. According to Bilgrami S.A.R. (2002), "the increasing foreign direct investment has helped to increase the share of export and import of India after the introduction of reforms. The foreign exchange reserve also has increased to 20 million dollars in the year 1995-96, i.e. within five years after the introduction of new economic reforms. The FDI, which was negligible before reforms, now became more significant in economic point of view. The inflow of FDI was just 68 million dollars in the beginning, which increased to 1314 million dollars in the year 1995-96". Singh Shikha (2019) also studied the FDI in India and the author argued that, the increasing inflow of FDI has benefitted the growth of several sectors in India. This was the most significant economic effect of increasing inflow of FDI in India. This research article has explained the trends in the total foreign direct investment inflows in India over the years.

2. Objective of the Study

- 2.1 To analyze the trends in the total inflow of foreign direct investment in India.
- 2.2 To explore the inflow of foreign direct investment in priority sectors in India.
- 2.2 To give the discussion over the inflow of the foreign direct investment in India.

3. Hypothesis of the Study:

- 3.1 There has increasing trend in the inflow of foreign direct investment in India.
- 3.2 The inflow of foreign direct investment in India has benefitted Indian economy
- 3.3 There has been unequal inflow of foreign direct investment in various sectors in Indian economy

4. Review of Literature:

The government of India has responded positively towards the policies on foreign direct investment, which has resulted into increasing inflow of it. The new economic reforms has made smooth path for FDI inflow in India. Gupta S.P. (1998) has studied the economic reforms in India and found that the foreign direct investment has contributed the growth of selected industries in India. Economic Survey (2004-05) has explained the benefits of economic reforms for Indian industries. This also has included the significant role of foreign direct investment in the economic growth. Herzer Dierk (2010) has studied the inflow of FDI in various countries. According to the author, there exists a positive relationship between the increasing inflow of FDI and economic growth. Mora and Singh (2013) have studied the contribution of foreign direct investment in the trade activities of Asian countries. According to the author, the increasing inflow of FDI has resulted into increase in trade activities, which includes both, export and

import. World Investment Report (2019) has argued that, the developing countries across the world have made flexible economic policies in order to attract the inflow of foreign direct investment in various sectors. According to the report, Asian countries, including India, have giant share in the world's total foreign direct investment.

5. Methodology

The study is based on secondary data published by Department for Promotion of Industries and Internal Trade (2019), Government of India. The study also has used published articles and books for the analysis. The period of study is considered after 2000-01 to 2016-17. The study has an objective of giving only trend analysis to the inflow of foreign direct investment in India. However, the priority sectors in FDI inflow are also considered for the analysis.

6. Analysis and Results:

The foreign direct investment inflow determines the rate of economic growth in India. After the globalization, the inflow of FDI in India increased continuously, however there has been slide ups and down in its total inflow. The globalization phase has given attractive returns to foreign companies. Due to the low level of wages, tax exemption and government's flexible policies, the foreign companies were interested in the investment in India. The FDI has promoted technological up-gradation along with the employment generation. Therefore, the inflow of FDI in India is very important to achieve economic growth. The foreign direct investment (FDI) inflows in India has played significant role in the economic growth. Several scholars have argued that, the industrial sectors have benefited by the FDI in India. The inflow of FDI in India over the years has been increasing. (Table No. 1). The flexible economic policies of the government have attracted more FDI. In the year 2000-01, the total inflow of FDI in India was recorded as Rs. 10,733 Crores, which increased to Rs. 98,642 crores in the year 2007-09. This was the highest increase in the total inflow of FDI during a period of five years. This increase in FDI was of Rs. 87,909 crores. This was golden period for the inflow of FDI in India. Further in the year 2008-09, this FDI increased to Rs. 142,829 crores. This increase was of Rs. 44,187 crores as compared to the last year (2007-08). In the year 2009-10 and 2010-11, there was negative growth in FDI inflow. In the year 2009-10, the total FDI was Rs. 123,120 Crores, which was fall of Rs. -19,709 crores. Similar trend was seen in the year 2010-11, the FDI inflow had further came down to Rs. 97,320 crores, which was estimated as fall of Rs. -25,800 crores. In the year 2011-12, it increased again to Rs. 165,146 crores. This increase was estimated as Rs. 67,826 crores compared to the last year. Again in the year 2012-13, the FDI inflow came down to Rs. 121,907 crores, which was declined by Rs. -43,239 crores. After this trend of fluctuation in the inflow of FDI, there was continuous rise in inflow. It increased to Rs. 147,518 crores, Rs. 189,107 crores, 262,322 crores and Rs.291,696 cores in the year 2013-14, 2014-15, 2015-16 and 2016-17 respectively.

The sector-wise inflow of FDI gives an impression that, service sector has been the priority sector for foreign companies in the recent years. (Table No.2). In the year 2014-15, the total inflow of FDI in service sector was Rs. 27,369 crores, followed by computer software and hardware (Rs. 14,162 crores), telecommunications (Rs. 17,372 crores). The other sectors, which attracted foreign investors, were 'Automobile Sector', 'Drug & Pharmaceuticals', and 'Construction Sector'. The total inflow in service sector has been continuously increasing over the years. It was estimated as Rs. 45,415 crores in the year 2015-16 and Rs. 58,214 crores in the 2016-17. In the year 2017-18, there was decline in inflow of FDI (Rs. 12,134 crores). The 'Computer software and Hardware Sector' was also attracting the foreign investors, where there was continuous rise in the inflow except in the 2017-18. The continuous rise in the inflow of FDI has promoted economic growth of India. The introduction of advanced technology and employment generation has been implied part of the investment. The foreign direct investment has played a significant role in the process of transformation of economic structure in India. The government policy regarding foreign investment has been supportive, which helped to increase the total inflow. The banking and non-banking sector and insurance sectors have grabbed significant size of the FDI.

The trend analysis of the inflow of foreign direct investment in India has shown increasing pattern, except in some selected years. On an average, the inflow of FDI in India has been attractive over the years. The inflow of FDI has benefited several industrial sectors. This has resulted into industrial growth. It's a fact that, the inflow of FDI depends on the potential profitability of industry. The analysis of inflow of FDI can be given under following discussion points.

The continuous rise in the inflow of FDI has promoted economic growth of India. The introduction of advanced technology and employment generation has been implied part of the investment. The foreign direct investment has played a significant role in the process of transformation of economic structure in India. The government policy regarding foreign investment has been supportive, which helped to increase the total inflow. The banking and non-banking sector and insurance sectors have grabbed significant size of the FDI.

- i) The foreign direct investment in India has been increasing over the years, especially after the globalization.
- ii) The post-globalization phase has attracted the foreign companies in India.
- iii) The post-globalization phase has given maximum returns to the foreign companies.
- iv) The foreign companies are interested in Indian economy due to the availability of cheap labour and exemptions in tax
- v) The FDI inflow has played significant role in the structural changes of Indian economy.
- vi) The FDI has introduced advanced technology and employment generation in India.
- vii) The total inflow of FDI in India was continuously increasing, especially after 2000-01.
- viii) There were temporary fluctuations in the inflow of FDI in selected years.
- ix) The inflow of FDI was highest in service sector and it continuously increased.
- x) The computer software and hardware sector has been important sector for foreign investors.
- xi) The banking and non-banking sector and insurance sector have benefitted more with the FDI

- xii) The Indian economy has benefitted significantly with the inflow of FDI, however there has been declining trend in the selected years.

Table No. 1
Total Foreign Direct Investment Inflows in India (in Rs. Crores)

Year	Amount of FDI Inflows (in Rs. Crores)	Amount of Change over previous year (in Rs. Crores)
2000-01	10,733	-
2002-03	12,871	2,138
2007-08	98,642	85,771
2008-09	142,829	44,187
2009-10	123,120	-19,709
2010-11	97,320	-25,800
2011-12	165,146	67,826
2012-13	121,907	-43,239
2013-14	147,518	25,611
2014-15	189,107	41,589
2015-16	262,322	73,215
2016-17	291,696	29,000

Source: Department for Promotion of Industries and Internal Trade (20019)- Fact Sheet -2019, GOI

Table No. 2
Total FDI Inflow in Priority Sectors in India (Amount Rupees in Crores)

Sr. No.	Sector	2014-15	2015-16	2016-17	2017-18
01.	Service Sector	27,369	45,415	58,214	12,134
02.	Computer Software and Hardware	14,162	38,351	24,605	8,480
03.	Construction Development: (Townships, Housing and Infrastructure)	4,652	727	703	1,616
04.	Telecommunications	17,372	8,637	37,435	565
05.	Automobile Industry	16,760	16,437	10,824	4,613
06.	Drugs and Pharmaceuticals	9,052	4,975	5,723	1,811
07.	Trading	16,755	25,244	15,721	4,955
08.	Chemicals	4,658	9,664	9,397	4,381

Source: Department for Promotion of Industries and Internal Trade (20019)- Fact Sheet -2019, GOI

7. Conclusion:

Indian economy has been an important destination for foreign investors. The foreign direct investment in India in selected sectors has been significantly high. The trend of inflow of FDI in India shows positive shape. However, there was slight decline in the inflow in selected years. The FDI has brought the advanced technology which benefited the economic growth of India. The FDI also has created employment opportunities in several industries. The global crisis also has affected the inflow of FDI in India in selected years. In the recent period, the inflow of FDI in India has gone through fluctuation. However, flexibility of the government economic policies has encouraged the FDI. As a whole, the economic growth of India highly depends on the inflow of FDI; hence the inflow of it must be increased.

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