

FDI INFLOWS IN INDIA: AN ANALYSIS FROM APRIL 2000 TO 2022

Veena Panjwani¹
Sneha Jain²

ABSTRACT

The nation's development depends heavily on foreign direct investment. When it comes to a nation's total development, domestic capital is occasionally insufficient. The use of foreign capital is thought to be helpful in reducing the gap between domestic savings and investment. In comparison to the past, India can bring in far higher amounts of foreign investment. The current study presents the trends of FDI inflows in India from the year 2000 to 2022. The research also lists the countries that have invested in FDI inflows to India and FDI inflows by sector from April 2000 to March 2022. Regression analysis was done to explore the relationship between foreign direct investment and other economic variables like foreign exchange reserve (FER), growth (GDP), and exports of goods and services(X).

Keywords: Department of Industrial Policy and Promotion, Foreign Direct Investment, FDI Inflows, linear regression.

INTRODUCTION:

One of the efficient tools of the escalating economic globalization is foreign direct investment. The question of investment has always been a problem for emerging economies like India. The globe has become more globalised, and all nations are liberalizing their investment from nations with plentiful financial resources. Large capital inflows across a variety of industries across the nation are encouraged by the vision of cutting-edge growth potential and significant earnings. The wealthy nations are concentrating on emerging areas where there is access to plenty of land. Labour markets, product opportunities and high profits. Foreign Direct investment is therefore is extremely important in emerging countries. Many nations provide numerous incentives for attracting the foreign Direct Investment (FDI). FDI is heavily influenced by a nation's rate of investment and savings. To bridge the gap between savings and investments, foreign direct investment serves as a conduit. Access to innovative technology and foreign money and foreign money assists to increase the efficiency and productivity of the current production capacity as well as open up new production opportunities. Foreign capital also helps to meet the local saving cap. Wage rates, labour skills, the size of the local market, the availability of raw materials at reduced prices, logistics etc are just few of the many variables that draw FDI. Foreign Direct investment are the growing source of funding that has helped developing nations to bridge the technological gap with more rich and developed nations and develop their domestic export markets. This study aims to examine the patterns of FDI inflows into India from 2000-01 to 2021-22. Analysis of FDI inflows to India by Sector and nation is another goal.

1. REVIEW OF LITERATURE

In a book titled "Foreign Direct Investment in India: The issues involved", Pant M. (1995), provides a definition of foreign direct investments as well as a brief overview of how they have changed over time (particularly in the 1980s and 1990s), as well as information on India's foreign investment policy, the foreign collaboration policy that was implemented in the year 1980s and the comparison of foreign and domestically owned firms that operate in India. The main recommendation was that as India liberalised its policies to compete with other Asian countries, it must look at the policies these countries followed to see what it can and cannot do to encourage foreign direct investment. The issue of the relative export orientation of foreign and domestically owned firms was also addressed.

"Foreign Direct Investment in India in the 1990s: Trends and Issues", Naga Raj R. (2003) analyzed the trends in FDI in India in the 1990s and compared them to China. Concerns over the impact of recent investments on the domestic economy are brought up in the report. The study comes to a conclusion by presenting a practical foreign investment policy based on analytical debate and comparative experience.

Sirari S. Arjun and Bohra S. Narendra (2011) examined the significance of foreign direct inflows into the Indian service industry since 1991 and connected the expansion of FDI into the sector to the creation of skilled and unskilled jobs. The study's data came from secondary sources. The study came to the conclusion that FDI has aided in increasing productivity and employment in the service sector.

The Indian economy is one of the world's top emerging markets, according to Shikha Singh's 2019 report, "Foreign Direct Investment (FDI) inflows in India: A Review". She stated that since 2014, when FDI significantly increased, India has become

¹ Assistant Professor, Gitarattan International Business School email id: veena.panjwani@gitarattan.edu.in;

² Student, Gitarattan International Business School

one of the top foreign destination countries on the globe. International businesses can now invest abroad thanks to new economic policies that were implemented in 1991. The secondary data used for this study's sectional analysis of FDI inflows to India from the year 2000 to 2018 was based on primary data. The findings of this analysis showed that USD 563320 million in gross FDI was received between April 2000 and June 2018.

In their study, Mishra R. & Palit S. (2020), discovered that FDI has both backward and forward links to the generation of jobs in India. India's service sector, which covered the years 2002 to 2012, FDI growth rates were three times higher in the second decade than in the first. The banking and insurance industries are in the lead when it comes to luring significant FDI offers, with the telecommunications sector coming in second. The largest number of job opportunities in India is created by FDI in service sector. The study's findings demonstrate that job growth in India during the past two decades is fairly observable, but FDI inflows may not be considered to have a significant role in this.

Does India need a lot more foreign direct investment? Balsubhramanyam V.N and Sapsford D. discovered that FDI inflows into China were ten times greater than inflows into India 2009. The research also comes to the conclusion that India may not require more FDI because of the structure and composition of its industrial and service sectors as well as its strengths in human capital. The optimal amount of FDI, which has substantial spillover effects, enhances job training, and supports productivity growth, is expected to be significantly lower in India than in other growing economies like China. They conclude that the country can now successfully unbundle the FDI package and rely on sources other than FDI.

2. Aims of the Research:-

1. To analyze the growth, trends, and patterns of FDI inflows in India from the year 2000 to 2022.
2. To study sector wise and country wise inflow of FDI in

India.

3. The Study's Hypothesis:-

1. H1: FDI inflows show the positive trend over the period from 2000 to 2022.

2. METHODOLOGY

The existing study is entirely based on secondary data. The data has been collected from various sources like World Investment Report, RBI statistical bulletin, UNCTAD, etc. The period of study is based on 2000 to 2022. Trend analysis of the data was done by using different statistical tools. Simple Logarithmic Linear Regression is a statistical tool used and well known to find out the stochastic relationship between two variables including independent and dependent variables in economics.

- a) Functional relationship between FDI Inflows and Foreign Exchange Reserves.

Real GDP (Y) is a function of FDI (X).

Symbolically, $RGDP = f(a, FDI, e)$

In the simple logarithmic regression model, it is

$$\ln Y_i = \ln a + b \ln X_i + e_i \dots \dots \dots (I)$$

3. FDI inflows trend and pattern since 2000 to 2022

The Table 1.1 given below depicts that FDI inflows in India in the year 2000-01 was 2463 USD million and rose to 4065 in the year 2001-02 with 65 percent growth rate due to the liberalization of FDI policy by the government. A fall in FDI inflows was observed in the year 2003-04 to 2188 USD million (-19 percent). The substantial loss in net equity, particularly in the electronics, electrical and service sectors was the primary cause of the total decline in 2002-03 and 2003-04. Inflows of Foreign Direct Investment (FDI) into India grew by 47 percent between 2004 and 2005 totaling 3219 USD million. FDI inflows into India were \$ 5546 million a growth of 72 percent over the previous year.

Table 1.1 FDI Inflows in India since year 2000 to 2022

Year		Total FDI INFLOWS	% Growth over previous years in terms of US\$
2000-01	Rupees Crores	10,733	
	USD Million	2,463	
2001-02	Rupees Crores	18,654	
	USD Million	4,065	(+) 65%
2002-03	Rupees Crores	12,871	
	USD Million	2,705	(-) 33%
2003-04	Rupees Crores	10,064	
	USD Million	2,188	(-) 19%
2004-05	Rupees Crores	14,653	

	USD Million	3,219	(+)47%
2005-06	Rupees Crores	24613	
	USD Million	5546	(+) 72 %
2006-07	Rupees Crores	70630	
	USD Million	15726	(+)125 %
2007-08	Rupees Crores	15180	
	USD Million	3670	(+) 97 %
2008-09	Rupees Crores	122919	
	USD Million	27329	(+) 28 %
2009-10	Rupees Crores	123378	
	USD Million	25888	(-) 18 %
2010-11	Rupees Crores	77902	
	USD Million	17080	(-) 17 %
2011-12	Rupees Crores	173946	
	USD Million	36504	(+) 64 %
2012-13	Rupees Crores	121907	
	USD Million	22423	(-) 36 %
2013-14	Rupees Crores	48830	
	USD Million	8461	(+) 8%
2014-15	Rupees Crores	189107	
	USD Million	30931	(+) 27%
2015-16	Rupees Crores	262322	
	USD Million	40001	(+) 29%
2016-17	Rupees Crores	291696	
	USD Million	43478	(+) 9%
2017-18	Rupees Crores	288889	
	USD Million	44857	(+) 3%
2018-19	Rupees Crores	309867	
	USD Million	44366	(-)1%
2019-20	Rupees Crores	353558	
	USD Million	49977	(+)13%
2020-21	Rupees Crores	442569	
	USD Million	59636	(+)19%
2021-22	Rupees Crores	4,37,188	
	USD Million	58773	(-) 1%

Source: FDI fact sheets since 2000 to 2022(DIPP)

In absolute terms, FDI inflows increased by 97 percent to 3670 USD million in 2007-08, owing to an increase in number of mergers and acquisitions industries in financial services, banking , information technology and construction. The investor's interested in the Indian economy has increased due to the rationalization and liberalization of FDI policy. Table 1.1 reveals that FDI inflows in India have experienced a mix of positive and negative growth of FDI inflows in India. During the study period, the annual growth rate was positive in the years 2001-02, 2004-05, 2005-06, 2006-07,2007-08, 2011-12, 2013-14, 2014-15, 2015-

16, 2016-17, 2017-18, 2019-20, 2020-21 and the maximum growth rate was observed in the year 2006-07 and highest negative rate was in the year 2012-13.

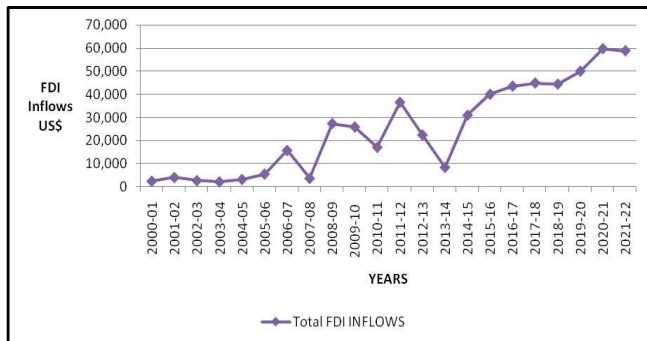


Figure: 1.1 FDI Inflows in India since 2000 to 2022

Source: FDI data from Fact sheet 2000 to 2022, DIPP

The above figure represents the pattern of FDI inflows in India since the year 2000 to 2022. The upward trend is reflected from the above given trend line of FDI inflows.

4. Share of Country wise Investment in India since 2000 to 2022

According to Department for Promotion of Industry and Internal Trade, total FDI inflows from all countries into India in 2021-22 is 58,773 USD million and 4,37,188 Rs. Crores. From April 2000 to March 2022, total FDI inflows from all countries totaled 588,528 USD million and 36,212 Rs. Crores. The top ten countries with maximum investment for the year 2021-22 are Mauritius, Singapore, U.S.A., Netherlands, Japan, UK and Cayman Islands, Germany, U.A.E, and Cyprus. Mauritius received the most investment, accounting for 26% of total FDI inflows; Singapore came in second, accounting for 23%; the United States of America came in third, accounting for 9%; the Netherlands came in fourth, accounting for 7%; and Japan came in fifth, accounting for 6% of total FDI investment. The remaining top five countries were United Kingdom (5%), Cayman Islands (2%), Germany (2%), the United Arab Emirates (2%), Cyprus (2%), and other countries (18%). Figure 1.2 given below depicts the percentage share of the top ten countries in terms of investment in FDI equity inflow.

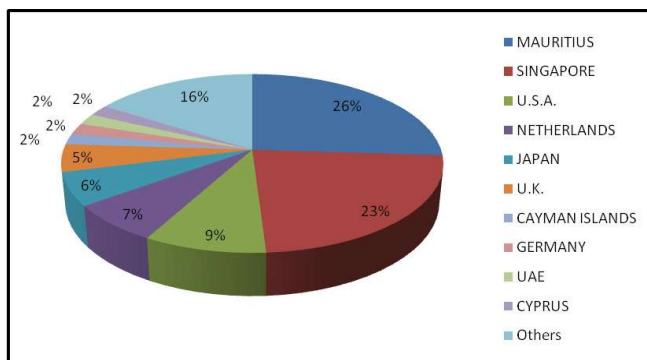


Figure 1.2 Percentage Shares of Top Ten Investing Countries in India since 2000 to 2022

5. Sector Wise FDI inflows in India since 2000 to 2022

As per the DIPP report, FDI inflows in India have increased by \$1.60 billion over the previous fiscal year despite the Ukraine war and the Covid -19 pandemic. India has recorded the highest foreign direct investment inflows for the fiscal year 2021-22 at \$83.57 billion. The country's FDI inflows have more than doubled since the fiscal year 2003-04, when total FDI inflows were only \$ 4.3 billion. According to data, the top ten sectors which received the highest FDI inflows were Service Sector, Computer Software and Hardware Sector, Telecommunication, Trading, Automobile sector, Construction, Construction Development, Chemicals, Drugs & Pharmaceuticals and Metallurgical industries. The service sector received approximately 16% of FDI inflows, followed by computer software and hardware, which received 14%. Telecommunication ranked third with recipient of 7% share, trading sector received 6% share, and the same was the case with automobile sector with 6% share. Remaining other five sectors were construction (Infrastructure Activities) with 5% share, Construction development with 5 percent share, chemicals (other than fertilizers), Drugs and pharmaceuticals, and metallurgical industries each with 3% share. In Financial year 2021-22, India's service sector which continues to be the country's major source of economic-growth contributed 53% of the country's Gross Value added at current prices (as per advance estimates). India's GVA expanded at a CAGR of 11.43% from Rs. 68.81 trillion to Rs. 101.47 trillion in financial year 2020. Figure 1.3 given below represents the share of sectors attracting highest FDI equity inflows in India since year 2000 to 2022.

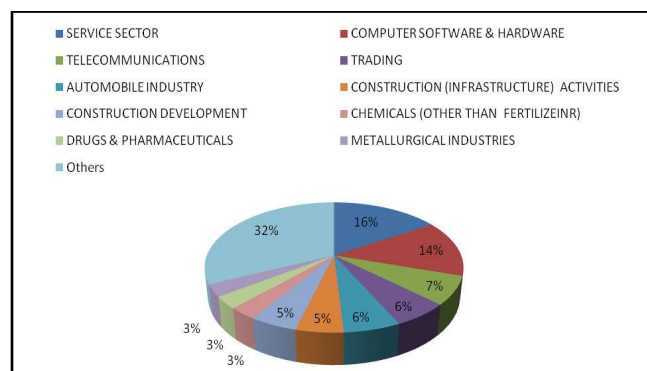


Figure 1.3 Share of sectors attracting highest FDI equity inflows in India since 2000 to 2022

6. Region Wise FDI inflows in India since 2000 to 2022

India has recently developed into a desirable location for FDI as a result of number factors that have increased FDI. India came it at number 68 on the Global competitive index; during the epidemic, the economy has shown remarkable endurance. Additionally, among the top 50 nations, India was ranked as the 48th most inventive nation. These elements have increased FDI inflows to India. According to the report of DIPP the state that received highest FDI was Maharashtra (15,439 USD

million) in the year 2021-22 with cumulative inflows from October 2019 to March, 2022 39,165 USD million with 28% share followed by Karnataka (22,072 USD million) with cumulative FDI inflows 34,031 USD million with 24% share of total FDI inflows. Gujarat attracted (2,706 USD million) FDI inflows with cumulative inflows 27,187 USD million with 19% of total FDI inflows. New Delhi (8,189 USD million) with cumulative FDI inflows 17,659 USD million occupied 12% share in total FDI inflows and Tamil Nadu (3,003 USD million) with cumulative FDI inflows (6,333 USD million) attracted 4% share in total FDI inflows. The other states were Haryana with 4% share, Telangana with 2% share, Jharkhand with 2%, Rajasthan with 1% and West Bengal with 1% share in total FDI inflows. The figure 1.4 given below represents the states/ regions attracting highest FDI equity inflow percentage share in India. In the previous year's data Jharkhand was not in top ten listing but has gained place in top ten since 2019-20.

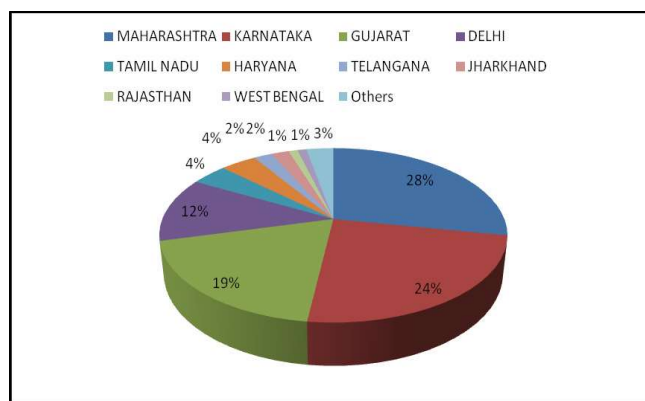


Figure 1.4 Share of Region Wise FDI inflows in India since 2000 to 2022

7. Association Between FDI Inflows and Some Economic Indicators

FDI inflows are an important indicator of country's economic growth and development. But the observation of past years also reflects that many other economic indicators like foreign exchange reserves, Gross Domestic Capital Formation, Exchange Rate, Inflation, and Employment are some important variables which get affected by FDI inflows or vice versa. An effort has been made by analyzing data from 2000 to 2022 taken from world indicator report, World Bank and Reserve Bank of India statistics to explore is there any relation between FDI inflows and these economic indicators.

Table No. 1.2 Regression Analysis of FDI inflows, FER, GDP and Exports of Goods & Services

Dependent Variable	Constant	b	Adjusted R Square	R-Square	F-Stat	P-Value	S.E
FER	-9420.8558	0.12029	0.80398284	0.813316991	9.94232	0.03356026	8734.8527
GDP	-9632.8908	2.11733	0.83840118	0.84609636	1.41661	0.01719985	7930.9941
Exports of Goods & Services	-6141.7989	9.26983	0.72587343	0.73892707	2.968782	0.20470379	10329.614

Interpretation

a. FDI and FER

The estimated results shows in table 1.2 that FDI is positive at 5 percent level of significance implying that contribution of FDI to Foreign Exchange Reserve is having positive relationship as value of R-square is 0.813. The model explains that 1percent change in FDI would bring a change in FER by 0.12 percent point. The model explains 9.94 magnitudes of F statistics. The p-value is 0.03 it implies that the null hypothesis is rejected and there is no correlation between FDI and FER. It explains the regressor is ineffective.

b. FDI and GDP

The analysis done taking 22 years data the table 1.2 given above represents that the value of R square is 0.846 which is on the higher end means there is some impact of FDI inflows on GDP in India. The model explains that 1 percent change in FDI brings

2.11 percent point increase in GDP. The value of F-statistics is 1.41661 magnitudes. P-Value is 0.017 and Standard error is 7930.9941. As p-value is less than 0.05 so it proves that there is insignificant relationship between the two variables FDI and GDP.

c. FDI and Exports of Goods & Services

In Table 1.2 the results indicate that there is somewhat relationship between FDI and exports of goods and services of India. FDI inflows with 1percent change bring 9.26 percent point change. R-square value 0.7389 reflects that there is some relationship between FDI and Exports of goods & services. The model elucidates 2.96 magnitudes of F statistics. The p-value is 0.2047 which is less than 0.05 suggests that there is no significant relationship between FDI and Exports of goods & services. It explicate the regressor is ineffective.

8. CONCLUSION

1. FDI inflows in India has increased 20 times from 2000-01 to 2021-22.
2. The maximum growth rate of (+) 125 percent was observed in the year 2006-07.
3. The highest negative growth rate (-) 18 percent was experienced in the year 2009-10
4. Mauritius, Singapore, U.S.A, Netherlands, Japan, UK, and Cayman Islands, Germany, UAE and Cyprus are the top ten countries with maximum investment for the year 2021-22 in India.
5. In the year 2021-22 the top ten sectors which received highest FDI inflows were Service Sector , Computer Software and Hardware Sector, Telecommunication, Trading, Automobile sector, Construction, Construction Development, Chemicals, Drugs& Pharmaceuticals and Metallurgical industries in India.
6. As per the FDI fact sheet 2021-22 the top ten regions receiving highest FDI are Maharashtra, Karnataka, Gujarat, Delhi, Tamil Naidu, Haryana, Telangana, Jharkhand, Rajasthan, and West Bengal.
7. There is positive correlation between FDI and FER; FDI and Growth but no significant relationship between FDI and Exports of goods& services.

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