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FOREIGN DIRECT INVESTMENT IN INDIA

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Abstract

Investment is very important for the growth and prosperity of an economy. Domestic investment and foreign investment both are equally important. Domestic investment may lead to the creation of domestic savings, consumption, and employment. Foreign Investment can decrease the domestic saving gap. The main objective of the study is to examine the trends and patterns of foreign direct investment in India. The descriptive design has been adopted for a study purpose. Secondary data has been used. Statistical tools ANOVA, average, percentage, and CAGR have been applied. Data has been taken from 2005 to 2017. Showing the data of total FDI and total foreign investment in India during the period 2005-17, the study highlights the trends in the aggregate inflow of FDI in India during 2005-2010 and 2010-17. At the overall level RBI automatic route is found contributing the maximum share of 64.98% to the total FDI inflow.

Keywords: **FDI; FIPB; Domestic Investment; CAGR; RBI**

INTRODUCTION

Investment, or creation of capital, is a vital determinant of economic growth. In general, the investment may lead to the creation of physical capital goods, finance, and human capital. In grouping with other factors of production and technology, investment determines the levels and growth through changes in production and consumption of goods and services. Investments consist of foreign investment and domestic investment. Foreign investment can decrease the domestic saving gap. Hence, notwithstanding the domestic saving gap, economic growth can be increased in an open economic with inflows of foreign investment. The foreign investment in India would encourage the domestic investment. The foreign investments are approving to economic growth and developing countries like India. The multinational corporation is a suitable device to integrate world economy. The growth of foreign investment directly associated growth of multinational corporations. If backward and underdeveloped countries are interested in rapid economic development, they will have to import machinery, technical know-how, entrepreneurship, and foreign investment. One of the methods of paying for the import is to set up exports or second alternative is getting foreign technology and equipment and it also depends upon foreign assistance is some forms or the other. Most countries of the world which enhance the road to economic development, had to depend on foreign capital to some economic fact cannot be devised that foreign capital contributed in many important way process of economic growth and industrializations. Foreign direct investment is an investment involving a long term link reflects a lasting interest and control of a resident entity in one financial system on an entity resident in an economy other than that of the foreign direct investor, individual as business entities may undertake FDI, such investment involve both the transaction between the two entities and all following transaction between them among foreign affiliated.

REVIEW OF LITERATURE

Gupta and Singh [1] studied the inter-relationship between FDI and economic growth, net FDI inflows (US bn.$) and GDP (US bn.$) series are used. The sample countries for the analysis are all five BRICS nations individually viz. Brazil, Russia, India, China and South Africa. Khatun and Ahamad [2] examined the causal relationship between FDI in the energy and power sector, and economic growth in Bangladesh for the period 1972–2010. Related trend reveals a considerable gap between energy production and energy use during this period. Moreover, inflow trend of FDI was also fluctuating over the studied period. It found that there are robust positive and unidirectional short-run causal relationships running from FDI to energy use and from energy use to GDP growth. Athukorala [3] It suggested that horizontal (market seeking) FDI has continued to dominate South Asian intra-regional FDI, with a significant shift in recent years in favor of services sector activities. Khan and Hye [4] asserted that enhancing the inflow of foreign direct investment (FDI) and ultimately to increase the economic growth. This study makes an analysis of the impact of liberalization (financial and trade) in Pakistan, on the

inflow of FDI using the time series data of 1971-2009. Duperon and Cinar [5] asserted that corruption is one of the major barriers that could potentially disrupt the inflow of FDI via the inherent risk of illegitimacies. The study suggested that transparent policies are essential to attracting long-term investments. Rai [6] suggested that India needs to provide incentives for foreign investors and remove the barriers to foreign investment and technology transfer into India and to further improve its investment environment condition such as political and legal factors to absorb foreign capital and advanced technology. Bransteeten, et al. [7] analyzed that Intellectual Property Rights, Imitation, and FDI: Theory and Evidence have the effect of strengthening Intellectual Property Rights (IPRs) on the level and composition of industrial development in the developing countries. They developed a North-South Product cycle model in which Northern innovation, Southern imitation, and FDI are all endogenous variables.

Aditya and Nigam [8] in his work “Globalization in the Indian Pharmaceutical Industry FDI spillovers and implications on Domestic Productivity: 1991-2007”, made an attempt to analyze and study the impact of globalization in the pharmaceutical industry and FDI spillovers in various forms to the domestic pharmaceutical industry in terms of domestic productivity and competitiveness etc. Narula and Lal [9] emphases that the factors that led to an optimization of the benefits from FDI for the host country. “With weak local capabilities, industrialization has to be more dependent on FDI. However, FDI cannot drive industrial growth without local capabilities”.

Blomstrom and Kokko [10] suggested that the strongest theoretical motives for financial subsidies to attract investment are spillovers of foreign technology and skills to local industry. Lyamoto [11] indicates that a high level of human capital is one of the key components for attracting FDI as well as for the host countries to get maximum benefits from these activities. Pradhan and Prakash [12] stated that for developing countries with higher human development, the impact of domestic investment on growth is not only positive but also statistically important, whereas, it has no significant impact in the case of developing countries with lower human development [13,14].

OBJECTIVE OF THE STUDY

To examine the Trends and patterns of foreign direct investment in India.

Hypothesis of the Study

Null hypotheses

H0: It is hypothesized that there is no significant difference in routes of FDI.

RESEARCH METHODOLOGY

The present research is mainly of quantitative nature, as most of the findings of the present study are based on quantified measures.

Research Design

In the present study, mainly descriptive research design has been adopted.

Data Collection

For this purpose, the prime sources of secondary data include DIPP, Reserve Bank of India Bulletins, etc. The Internet has also remained as an important source of secondary data.

Table 1: Foreign direct investment and total foreign investment in India during 2005-2017.

Year	FDI	Total Foreign Investment	Percentage
2005	6051	15366	39.38
2006	9697	22189	43.70
2007	22826	29829	76.52
2008	34843	62114	56.10
2009	41873	28018	149.45
2010	37745	70121	53.83
2011	34847	66318	52.55
2012	46555	63964	72.78
2013	34298	62067	55.26
2014	36046	41075	87.76
2015	44291	88353	51.10
2016	55559	51429	108.03
2017	60082	67994	88.36
CAGR	19.31%	12.12%	-
Source: RBI Monthly Bulletin			

Data Processing and Analysis

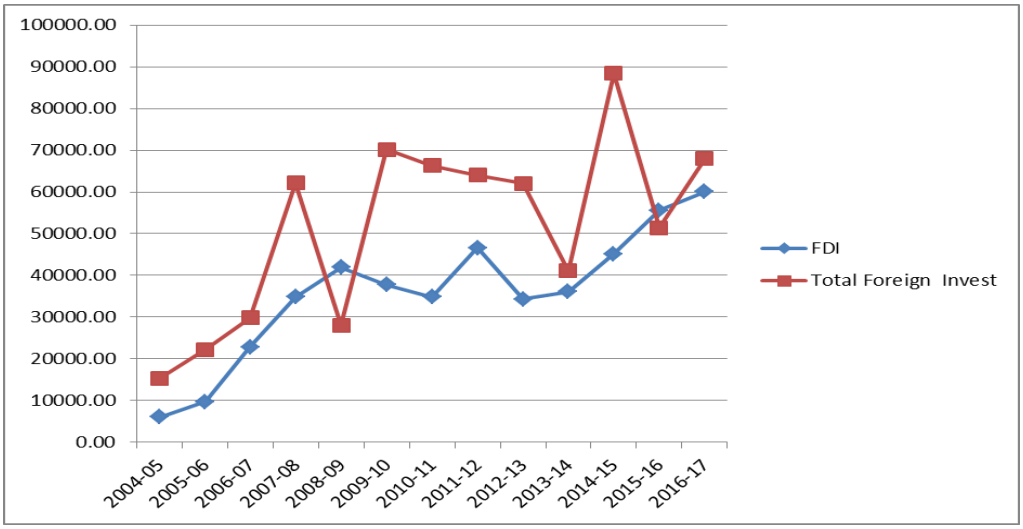
For analyzing the data, advanced statistical tools have been used. In some cases, simple statistics like average, percentage and CAGR have been applied. Exploratory research, require some advanced tools; therefore to test the various hypothesis of the study, ANOVA. The test was conducted at 95 percent confidence level (or 5 percent level of significance).

Period of the Study

The period of last 13 year from 2005-2017 and latest is taken for the present study.

This Table 1 clearly explains that the percentage share of foreign direct investments inflow is found more than 44.00 percent of total foreign investment throughout the study period, except the year 2005 and 2006. The table further shows that the total foreign direct investment of US$ 6051 million in 2005 to the inflow of US$ 60082 million in 2017 is a long journey of 13 years and represents an increase of 9.92 times. In 2012 inflow of FDI increased by 7.69 times touching the figure of US$ 46555 million. In the year 2010 FDI inflow declined to the US$ 37745 million due to slow FDI inflows in India. FDI decreased after the year 2012, touching the figure of US 46555 million in the year 2009 representing 149.45 percent of its total foreign investment. During the period of three (2009 to 2011) years' inflows of FDI started declining, fluctuating, in different years. From the year 2012, the inflow of FDI again started increasing and touched the figure of US$ 46555 million in 2012. After that in 2013 FDI has been decreased and at last the inflow of FDI again started and touched the figure of US$ 60082 million in 2017. The CAGR of FDI is 19.31 percent. In the case of foreign investment, the CAGR is 12.12 percent. In the year 2009,2014 and 2016 inflow of FDI have increased to the level of US$ 41873, 36046 million and the US$ 55559 million and its percentage is 149.45,87.76 and 108.05 of total foreign investment respectively (Figure 1)**.**

Figure 1: Foreign direct investment and total foreign investment in India during 2005-2017.



Trends in Aggregate Inflow of FDI in India

The yearly aggregate inflow of FDI has been computed on the basis of balances appearing on the last day of the financial year (31 March) in India. The total inflow of

FDI accepted by the various channels under study can be reviewed with the help of the table. The data has been divided into two time periods according to the availability of data source. The scheme of data period has been categorized as follows 2005-2010 and 2011-2017 (Tables 2 and 3).

Table 2: Trends in Aggregate Inflow of FDI in India during 2005-2010.

Year	Amount	Index No.	Growth Rate
2005	6051	100	-
2006	9697	160.25	60.25
2007	22826	377.23	138.61
2008	34843	575.82	158.60
2009	41873	692.00	148.00
2010	37745	623.78	104.76
Source: RBI Monthly Bulletin			

Table 3: Trends in Aggregate Inflow of FDI in India during 2011-2017.

Year	Amount	Index No.	Growth Rate
2011	34847	100	-
2012	46555	133.60	33.60
2013	34298	98.42	(0.79)
2014	36046	103.44	1.15
2015	45148	127.10	6.78
2016	55559	151.74	7.16
2017	60082	159.88	2.62
Source: RBI Monthly Bulletin			

Table 2 shows that the aggregate inflow of FDI which stood at the US$ 6051 million in the year 2005 increased to the US$ 37745 million in the year 2010. The inflow of FDI increased at a high growth rate of 158.60 in the year2008 over the base year 2005. After analyzing the behavior of aggregate inflow of FDI it is concluded that the inflow of FDI has increased with a high growth rate within this 2005 to 2008. The inflow of FDI in India, as tabulated in Table 2 shows that they have gone up to US$ 44291 million in the year 2015 as against the US$ 34847 million in the year 2011. The inflow of FDI decreased in the year 2013 and 2014 in comparison to the base year 2011. But after the year 2013, it has been increasing consistently till the year 2017. The index number of the inflow of FDI

varied between 98.42 to 159.88 during this period. The growth rate of this inflow of FDI was -0.79 in the year 2013 and growth rate of inflow of FDI was 2.62 in the year 2017.

FDI Inflows: Route wise Analysis

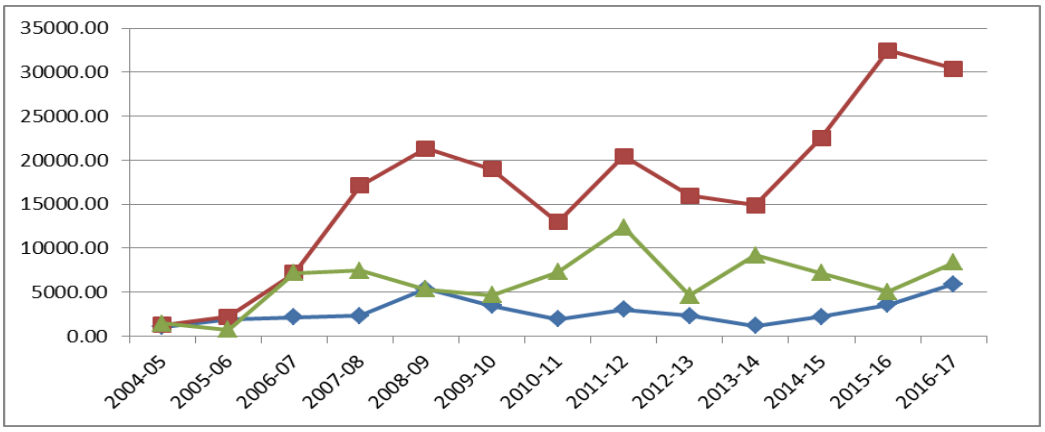
FDI is the most important source of foreign investment inflows in developing countries like India. Before 1991, the inflows of FDI in India were not at all satisfactory. But after the announcement of new industrial policy in July 1991, India has experienced acceleration in the inflows of FDI into the country (Table 4).

Table 4: Route wise inflow of FDI during the period 2005-2017.

Year	FIPB	%	RBI	%	Other	%	Total
2005	1062	28.11	1258	33.30	1458	38.59	3778
2006	1862	38.70	2233	46.41	716	14.88	4811
2007	2156	13.08	7151	43.39	7174	43.53	16481
2008	2298	8.55	17127	63.75	7439	27.69	26864
2009	5400	16.84	21332	66.53	5334	16.63	32066
2010	3471	12.79	18987	69.94	4688	17.27	27146
2011	1945	8.74	12994	58.40	7311	32.86	22250
2012	3046	8.50	20427	56.97	12383	34.54	35856
2013	2319	10.13	15967	69.77	4598	20.09	22884
2014	1185	4.69	14869	58.83	9220	36.48	25274
2015	2219	6.96	22530	70.66	7163	22.45	31912
2016	3574	8.69	32494	79.04	5044	12.27	41112
2017	5900	13.20	30417	68.04	8388	18.76	44705
Total	36437	10.87	154875	64.98	67458	24.14	335139
Source: RBI Monthly Bulletin							

The Table 4 further shows that the total amount of actual inflows of FDI during 2005-2017 accounted for the US$ 335139 million, out of which inflow of RBI's automatic route had a significant share of 64.98 percent; government's FIPB approval accounted for 10.87 percent and remaining 24.14 percent shared by another route. Government (FIPB) route has gained a lot of significance for inflow of FDI (Figure 2).

Figure 2: Route wise inflow of FDI during the period 2005 to 2017.



Since it has accounted for 28.11 percent to 13.20 percent of the total inflow of FDI from 2005 to 2017 in FIPB. RBI (automatic) route has attracted for 33.30 percent to 79.04 percent of the total inflows of FDI during the study period. The share of FDI inflows through other route has been in the decreasing order starting at peak 38.59 percent in 2005. Hence RBI's automatic route is the most popular route till date (Table 5).

Table 5: FDI and FIPB, RBI and Other Routes.

Source of variation	**Sum of square**	**Degree of freedom**	**Mean square**	**F**
Between Group	1374.339	2	687.170	20.426
Within Groups	1211.105	36	33.642	-
Total	2585.444	38	-	-

Inference

Since, the calculated value between FDI FIPB, RBI and Other Routes 20.426 is greater than the table value at 3.32 at 5 percent level of significance. Therefore the (H_0) hypothesis is rejected and H_1 is accepted. It means there is a significant relationship between two variables. It indicates that there is a highly significant relationship between Foreign Direct Investment and FIPB, RBI and Other Routes.

FINDINGS AND CONCLUSION

FDI and Total Foreign Investment

The percentage share of foreign direct investments inflow is found more than 44.00 percent of total foreign investment throughout the study period, except the year 2005 and 2006. The table further shows that the total foreign direct investment of US$ 6051 million in 2005 to the inflow of US$ 60082 million in 2017 is a long journey of 13 years and represents an increase of 9.92 times. In 2012 inflow of FDI increased by 7.69 times touching the figure of US$ 46555 million. In the year 2010 FDI inflow declined to the US$ 37745 million due to slow FDI inflows in India. FDI decreased after the year 2012, touching the figure of US 46555 million in the year 2009 representing 149.45 percent of its total foreign investment. During the period of three (2009 to 2011) years' inflows of FDI started declining, fluctuating, in different years. From the year 2012, the inflow of FDI again started increasing and touched the figure of US$ 46555 million in 2012. After that in 2013 FDI has been decreased and at last the inflow of FDI again started and touched the figure of US$ 60082 million in 2017. The CAGR of FDI is 19.31 percent. In the case of foreign investment, the CAGR is 12.12 percent. In the year 2009,2014 and 2016 inflow of FDI have increased to the level of US$ 41873, 36046 million and the US$ 55559 million and its percentage is 149.45,87.76 and 108.05 of total foreign investment respectively**.**

Aggregate Inflow of FDI in India

The aggregate inflow of FDI which stood at the US$ 6051 million in the year 2005 increased to the US$ 37745 million in the year 2010. The inflow of FDI increased at a high growth rate of 158.60 in the year2008 over the base year 2005. After analyzing the behavior of aggregate inflow of FDI it is concluded that the inflow of FDI has increased with a high growth rate within this 2005 to 2008. The inflow of FDI in India, as tabulated in Table 2 shows that they have gone up to US$ 44291 million in the year 2015 as against the US$ 34847 million in the year 2011. The inflow of FDI decreased in the year 2013 and 2014 in comparison to the base year 2011. But after the year 2013, it has been increasing consistently till the year 2017.

Route wise Analysis of FDI

The amount of Foreign Direct Investment in India has been approved by various routes such as government route (FIPB), RBI automatic route and other routes. It is observed that the US$ 335139 million of total foreign direct investment was received through all the three routes during the period from 2005-2017 under review. Out of the total amount, RBI accounted for the US$ 2,17,786 millions, forming 64.98 percent of total investment claiming a giant share. The government route (FIPB) and other route accounted for 10.87 percent and 24.14 percent respectively.

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