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An analysis of Sectoral Wise FDI in last two decades in India

DR. ANUJ KUMAR
Assistant Professor, Amity University

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 2002 to 2022. Showing the data of total FDI and total foreign investment in India during the period 2002-12, the study highlights the trends in the aggregate inflow of FDI in India during 2005-2010 and 2010-17 and 2017-2022. At the overall level RBI automatic route is found contributing the maximum share of 72 % to the total FDI inflow.

Index Terms- FDI ,FIPB; Domestic Investment; CAGR; RBI

I. 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. 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. FDI or Foreign Direct Investment, plays an significant role towards the growth and development of an economy, particularly in case of developing economies, where domestic savings is not sufficient to meet the needs of generating funds for capital investment. The of fund between the countries in the form of inflow or outflow flow where one can reap some benefit from their investment whereas the other can exploit the opportunity to enhance the productivity an can find a better position through performance, also supplements the investment requirements of a country's economy, brings new technology, managerial expertise and adds to foreign exchanges reserves. After two decades of economic reforms and the challenges faced to compete globally to attract as a favourable destination for foreign investors after considering the market potentiality, the quality of FDI matters at least as much as the volume of FDI for the growth implications in host economies. The potential advantages of the FDI on the host economy are that it could facilitate the optimal use and the exploitation of local raw materials and products introducing new and modern techniques of management, easing the access to new technologies, creating opportunities for employment. For emerging economies like India FDI can now be referred as the most effective way for transferring capital and technology from other economies especially, from the developed ones. There should not be no distinction between FDI and trade dimension though are being increasing with organized rate of global value chains. Now, the need arises to remove those administrative complexities to achieve synergy among various government machineries. In comparison with the experience of other Asian economies that would have been analyzed particularly that of border country, China, offers an important policy lesson for India, i.e. decentralization of powers that may facilitate a considerable freedom to make quick decisions and encourage FDI in desired sectors (Pant & Srivastava 2018).

II. 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 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

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.

III. TRENDS OF FDI FROM 2002-2022

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, 201516, 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.

IV. SECTOR WISE FDI INFLOWS IN INDIA SINCE 2000 TO 2022

Several indicators can reflect the quality of FDI inflows into the country, changes in Sectoral composition is one of them. Kapila (2016) states that it's very important for a country to analyse the FDI is going to which of its respective sectors. Whether it's going to modern and advanced technology intensive sectors or helping to build productive capabilities thereby crowding out domestic investments. There has been a drastic shift in the composition of FDI inflows since 1991. The FDI's have gradually shifted from manufacturing to services sector. Also, different sectors have been opened up for FDI at different points of time. That partly explains the difference in FDI received in various sectors.

The sector showing the highest growth rate in terms of FDI inflows is the services comprising of Financial, Banking, Insurance, Non-Financial/Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis Since 2015, the sector has received Rs 45,415 crores which further increased to Rs 58,214 crores in 2016. In the last eighteen years this sector has registered growth rate of nearly 18 per cent in FDI inflows. The service sector in the country has played an important role in enabling improved economic performance on the domestic

Table 3: Sector-Wise FDI Inflows in India from 2000-2018 in Rs crore (in US$ million)

Ranks	*Sectors*	*2015-16*	*2016-17*	*2017-18*	*2018-19 (April 2018 – June 2018)*	*Cumulative Inflows (April, 2000–June, 2018)*	*% age to Total Inflows*
1.	Services Sector **	45415 (6,889)	58,214 (8,684)	43,249 (6,709)	16,119 (2,432)	375,937 (68,617)	18 %
2.	Computer Software & Hardware	38351 (5904)	24,605 (3,652)	39,670 (6,153)	9,354 (1,407)	185,813 (32,230)	8 %
3.	Telecommunications	8637 (1324)	37,435 (5,564)	39,748 (6,212)	10,681 (1,593)	180,593 (31,751)	8 %
4.	Construction Development***	727 (113)	703 (105)	3,472 (540)	221 (33)	118,331 (24,865)	6%
5.	Trading	25244 (3845)	15,721 (2,338)	28,078 (4,348)	10,938 (1,625)	123,574 (20,184)	5 %
6.	Automobile Industry	16437 (2527)	10,824 (1,609)	13,461 (2,090)	3,553 (527)	109,232 (19,291)	5 %
7.	Drugs & Pharmaceuticals	4975 (754)	5,723 (857)	6,502 (1,010)	749 (112)	83,071 (15,829)	4 %
8.	Chemicals (Other Than Fertilizers)	9664 (1470)	9,397 (1,393)	8,425 (1,308)	5,311 (786)	82,688 (15,387)	4 %
9.	Power	5662 (869)	7,473 (1,113)	10,473 (1,621)	6,367 (969)	76,926 (14,179)	4 %
10.	Construction (Infrastructure) Activities	29842 (4511)	12,478 (1,861)	17,571 (2,730)	3,769 (562)	81,715 (13,109)	3%

Note: ** Services sector includes Financial, Banking, Insurance, Non-Financial / Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis

*** Construction Development Townships, Housing, Built-Up Infrastructure And Construction- Development Projects

Source: DIPP.

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 growth as well as external fronts during the post reform period. Services have also facilitated India's integration with the World economy through trade and capital flows especially in the Information and technology (IT) and business process outsourcing (BPO) as pointed out Chanda (2012). The share of both telecommunications and computer hardware and software is at 8 % each. Both are also part of the service sector. Thus, overall this sector has nearly 32 per cent of FDI inflows in the country. The figures in table 3 can also be analysed in terms contribution of the manufacturing sector to FDI inflows. The automobile industry has been able to make Rs 16,437 crore worth of FDI inflows in 2015 16 and Rs 10,824 crores in 2016-17. Over the years the sector has able to contribute nearly 5 per cent to total FDI inflows in the country. Over the last decade this sector has seen investments from various countries like U.S (Harley Davidson bike manufacturing, Jeep and Ford in the SUV segment), Korea (Kiya motors), Japan (I Suzu), U.K based Morrison Garage (now taken over by Chinese Firm), Europe (German car makers Mercedes Benz, BMW, Volkwagen; Italian car makers like Fiat) to name a few. All these manufacturers have now set up manufacturing bases in India thus contributing to GDP, employment and infrastructure development in the country. In the power sector FDI has been continuously increasing from Rs 5662 crores in 2015-16 to Rs 10473 crores in 2017.

CONCLUSION

Considering the present context and the current scenario of global environment, it is all not possible for a country to have such a fast pace of economic development on its own. In the year 2014, when a new FDI policy introduced, the inflows witnessed a positive pattern of foreign investment, due to the adoption of more liberal foreign policy and quantum of measures taken by the Union Government. The share of FDI increased from the year 2013-14, showing a positive effect on the country's economy. Service sector receives the highest amount of FDI, followed by computers, telecommunication and other manufacturing related industries. FDI is necessary for new job creation, expansion of existing manufacturing industries and development of the new one. Indeed, it is also need for in the healthcare, education, R&D, infrastructure, retailing and in long- term financial projects (Bajpai, 2016). It is important to note that, in line with global situation, the Press Note regarding the introduction of a new FDI policy in 2020, is intended to increase regulatory oversight on investments from bordering countries. However, it would be optimal for the government to clarify those matters time to time, with the adoption of any changes with respect with the Indian foreign exchange regulations. The result of sectoral level output export productivity is trifling due to stumpy flow of FDI.

FDI inflows in India has increased 20 times from 2000 01 to 2021-22. The maximum growth rate of (+) 125 percent was observed in the year 2006-07. The highest negative growth rate (-) 18 percent was experienced in the year 2009-10 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. 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.

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