

Recent Trends of Foreign Direct Investment in India and Its Impact on Economic Growth

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Abstract: *Country desiring for sustainable economic growth has to explore global opportunities and Foreign Direct Investment helps in achieving significant development for the economy. FDI is considered to be the most essential medium of development in the emerging sectors of an economy. India is an emerging market globally due to its various prospering aspects like cheap labour, greater market size and abundance natural resources etc. which attract foreign investors for better prospects in various sectors. The present paper aims to study the trends of FDI in the country and understand the reason behinds its fluctuations. This study was conducted to investigate the trends of FDI in India and to find out the impact of Make in India policy on FDI. The study also aimed to understand the role of FDI for the development of a nation. It was found that India succeeded in attracting foreign investors after the launching of Make in India policy and various other government reforms. In India, various sectors are emerging, for example - tourism, transport, communication, health and education. These sectors desperately require FDI for its prosperity and development. Besides, FDI is also an ideal solution for socio-economic problems like unemployment, deficit BOP (Balance of Payment), technological incapability and lack of sufficient foreign exchange. To get the desired level of economic growth, the best outcome comes in the form of FDI where a developed country invests through its capital and latest technology in a developing nation and explores its natural and human resources.*

I. Introduction

India is an attractive hub for foreign investments in the manufacturing sector. Several mobilephone companies, luxury and automobile brands, among others have set up or are looking to establish their manufacturing bases in the country. Indian Prime Minister Mr. Narendra Modi has launched the 'Make in India' campaign to place India on the world map as a manufacturing hub and to recognize Indian economy worldwide as a preferred destination for foreign direct investment. FDI boosts manufacturing industry by aiding setting up of various manufacturing units in different parts of India. The manufacturing sector in India has the potential to reach US\$1 trillion by 2025 and contribute approximately 25 percent to India's GDP.

Currently India has a contribution of approximately 2.2 percent of world's total manufacturing output, which is at par with developed economies like UK and France. Make in India is an international marketing strategy, conceptualized by the prime minister of India, Narendra Modi on 25 September 2014 to attract investment from business around in the world, and in the process, strengthen India's manufacturing sector. In August 2014, the Cabinet of India allowed 49% Foreign Direct Investment in the defence sector and in the following year it was raised to 100%. The government received Rs. 1.20 lakh crore worth of proposals from companies interested in manufacturing electronics in India. The sectors which attracted higher inflows were services, telecommunication, construction activities and computer software and hardware. India is among the world's fastest growing economies and remains a top market for foreign direct investments (FDI) globally.

According to the Department of Industrial Policy and Promotion (DIPP), total FDI investments in India in the first nine months of fiscal year (FY) 2019 (April – December 2018) were approximately US\$ 33.5 billion. The services sector attracted the highest FDI equity inflow of US\$ 6.5 billion, followed by computer software and hardware – US\$ 4.9 billion, and telecommunication – US\$ 2.2 billion.

The top sources for the FDI were Singapore, with US\$12.9 billion, Mauritius US\$6 billion, Netherland US\$2.9 billion, and Japan US\$2.2 billion. Mauritius is a favorite hotspot for foreign investors, Indians living overseas, as well as Indian companies to route money into or out of India.

II. Literature Review

In the review of literature section, the researcher try to examine the trends of FDI inflows in to Indian manufacturing sectors that enters into the Indian market. The relevant reviews on earlier empirical studies that focused on Make in India.

Sanghamitra Samal and D.Venkatrama Raju (2016) in their research paper “A study of Foreign Direct Investment (FDI) on Manufacturing Industry in India”, they analysed the role and importance of FDI in manufacturing sector. The analysis had taken two variables to study the impact on the manufacturing sector of the country and how it affects the economic growth.

GDP. K. Narayanaswamy et.al (2016), observed that “Make in India” initiatives will strengthen India’s manufacturing sector. The campaign has been concentrating to fulfil the purpose of job creation, enforcement to secondary and tertiary sector, boosting the national economy, converting India to a self-reliant country and to give the Indian economy global recognition.

Chee Y. L., Nair M. (2010), “The Impact of FDI and Financial Sector Development on Economic Growth: Empirical Evidence from Asia and Oceania” observed that financial sector development enhances the contribution of FDI on economic growth in the region.

Objective of the Study

1. To analyze the trend of FDI in India.
2. To analyze the relationship between FDI and economic growth.

Trend of FDI in India

Foreign direct investment (FDI) in India seems to be petering out with the inflows growth rate recording a five-year low of 3 per cent at USD 44.85 billion in 2017-18. According to the latest data of the Department of Industrial Policy and Promotion (DIPP), FDI in 2017-18 grew by only 3 per cent to USD 44.85 billion. Foreign inflows in the country grew by 8.67 per cent in 2016-17, 29 per cent in 2015-16, 27 per cent in 2014-15, and 8 per cent in 2013-14. However, FDI inflows recorded a negative growth of 38 per cent in 2012-13.

According to experts, it is critical to revive domestic investments and further ease of doing business in the country to attract foreign investors. Anil Talreja, Partner, Deloitte India, said the low growth of FDI in the consumer and retail sectors can be mainly attributed to uncertainty and complexity of the FDI policy. "While the government has taken substantial efforts in relaxing the regulations as well as removing ambiguities, global consumer and retail companies are still hesitant to take decisions to invest in India," he said.

India has done considerably well in terms of moving up the ranking in terms of ease of doing business, however, it needs to reach a level that creates enthusiasm for the overseas investors, Talreja added. Biswajit Dhar, professor at Jawaharlal Nehru University, said, "The status of economy reflects the magnitude of the FDI in a country. In the past couple of years, we have seen decline in domestic investment rate and now, FDI is following that suit." He said that the government needs to take steps for reviving the domestic investment to attract foreign investors.

An UNCTAD report, too, has recently stated that the foreign direct investment in India decreased to USD 40 billion in 2017 from USD 44 billion in 2016 fiscal. However, outflows from India, the main source of the FDI in South Asia, more than doubled to USD 11 billion, the report stated. UNCTAD Secretary-General Mukhisa Kituyi has said, "Downward pressure on the FDI and slowdown in global value chains are a major concern for policy makers worldwide, and especially in developing countries". The main sectors that received maximum foreign inflows in the last fiscal include services (USD 6.7 billion), computer software and hardware (USD 6.15 billion), telecommunications (USD 6.21 billion), trading (USD 4.34 billion), construction (USD 2.73 billion) automobile (USD 2 billion) and power (USD 1.62 billion).

Mauritius has emerged as the largest source of FDI in India with USD 15.94 billion in 2017-18 followed by Singapore (USD 12.18 billion), Netherlands (USD 2.8 billion), the US (USD 2.1 billion) and Japan (USD 1.61 billion). Further, the data showed that the FDI equity inflow of USD 44.8 billion in 2017-18 is the highest ever for any financial year. FDI is important as India would require huge investments in the coming years to overhaul its infrastructure sector to boost growth. Decline in foreign inflows could put pressure on the country's balance of payments and may also impact the value of the rupee.

III. Research Methodology

Methodology describes the research route to be followed, the instruments to be used, universe and sample of the study for the data to be collected, the tools of analysis used and pattern of deducing conclusions. This research is conceptual & descriptive in nature therefore the research study uses secondary data which has been collected out of the reviews of past research papers, national journals and other reports. The present study was carried out keeping the objectives in mind to explore the relationship between the inflows of FDI and its impact on Indian Economy.

Data Analysis

The total FDI inflow in India from 2014 to June-2018 is US\$ 335020 and cumulative FDI equity inflow is US\$ 224817 million. The FDI in the India has shown a good growth after 2014.

FDI Inflow Year wise

Foreign Direct Investment Flows to India: Sector-wise Inflows during 2014-2018.

Source/ Industry	2013-14	2014-15	2015-16	2016-17	2017-18	2017-19	Total
Communication Services	1,256 (6.39%)	1,075 (5.46%)	2,638 (13.42%)	5,876 (29.89%)	8,809 (44.82%)	19654	19654
Manufacturing	6,381 (14.67%)	9,613 (22.11%)	8,439 (19.41%)	11,972 (27.54%)	7,066 (16.25%)	43471	43471
Retail & Wholesale Trade	1,139 (7.62%)	2,551 (17.07%)	3,998 (26.76%)	2,771 (18.55%)	4,478 (29.97%)	14937	14937
Financial Services	1,026 (6.64%)	3,075 (19.90%)	3,547 (22.95%)	3,732 (24.15%)	4,070 (26.34%)	15450	15450
Computer Services	934 (7.46%)	2,154 (17.20%)	4,319 (34.50%)	1,937 (15.47%)	3,173 (25.34%)	12517	12517
Business services	521 (5.25%)	680 (6.85%)	3,031 (30.55%)	2,684 (27.05%)	3,005 (30.28%)	9921	9921
Electricity and other energy Generation, Distribution & Transmission	1,284 (17.06%)	1,284 (17.06%)	1,364 (18.39%)	1,722 (22.88%)	1,870 (24.85%)	7524	7524
Construction	1,276 (12.88%)	1,640 (16.56%)	4,141 (41.81%)	1,564 (15.79%)	1,281 (12.93%)	9902	9902
Transport	311 (7.20%)	482 (11.17%)	1,363 (31.59%)	891 (20.65%)	1,267 (29.36%)	4314	4314
Miscellaneous Services	941 (18.09%)	586 (11.26%)	1,022 (19.65%)	1,816 (34.92%)	835 (16.05%)	5200	5200
Restaurants and Hotels	361 (12.81%)	686 (24.34%)	889 (31.54%)	430 (15.25%)	452 (16.03%)	2818	2818
Real Estate Activities	201 (19.60%)	202 (19.70%)	112 (10.92%)	105 (10.24%)	405 (39.51%)	1025	1025
Education, Research & Development	107 (9.03%)	131 (11.06%)	394 (33.27%)	205 (17.31%)	347 (29.30%)	1184	1184
Mining	24 (2.46%)	129 (13.27%)	596 (61.31%)	141 (14.50%)	82 (8.43%)	972	972
Trading	0 (0%)	228 (100%)	0 (0%)	0 (0%)	0 (0%)	228	228
Others	293 (20.40%)	232 (16.15%)	215 (14.97%)	470 (32.72%)	226 (15.73%)	1436	1436

Source: RBI Monthly Bulletin

It is known that on “Communication Services” is first in foreign Direct Investment Flows to India. At 2013-2014 the FDI was 6.39% it progressively increases into 44.82% at 2017-2018.

It is clear that on “Manufacturing” is second in foreign Direct Investment Flows to India. At 2013-2014 the FDI was 14.67% it gradually increases into 16.25% at 2017-2018.

It is seen that on “Retail & Wholesale Trade” is fourth in foreign Direct Investment Flows to India. At 2013-2014 the FDI was 7.62% it increasingly increases into 29.97% at 2017-2018.

It is noted that on “Financial Services” is third in foreign Direct Investment Flows to India. At 2013-2014 the FDI was 6.64% it progressively more increases into 26.34% at 2017-2018.

It is observed that on “Computer Services” is fifth in foreign Direct Investment Flows to India. At 2013-2014 the FDI was 7.46% it progressively more increases into 25.34% at 2017-2018.

It is learn that on other Sector-wises in foreign Direct Investment Flows to India. At 2013-2014 the FDI percentage was it progressively more increases on the basis of Table-2 into at 2017-2018.

IV. Findings

- After the launch of Make in India, the trends of FDI has shown positive influence over the foreign investors due to investor friendly signals received from India.
- India has jumped from 15th position in 2014 to 10th position in 2015 in the most trusted nations for FDI.
- India has managed to receive \$40 billion foreign investment during 2015-16 which is more than 30% from the previous year. (UNCTAD, 2016).
- Singapore has the highest FDI in India during the year 2015-16.
- Financial crises results in the withdrawal of FDI for that specific time period.
- India has the largest FDI in service sectors by 19.51% of total FDI.

- FDI are attracted towards Construction Development by 11.56%.
- The FDI is significantly contributing in the economic development of India as it has the positive correlation coefficient of 0.6 with Indian GDP.
- Service sector of India is the second fastest growing services sector with CAGR at 9 per cent, just below China's 10.9 per cent, during the last 11-year period from 2001 to 2012 and that why the Indian service sector shares maximum share of the total FDI In India.

V. Conclusion

The study showed that the fastest growing service sector are transport, tourism, health and communication which are the top most pick for the foreign investors. The study also shows that the highest foreign investment in India during 2015-16 was from Singapore. The study also shows that Inward FDI gives long term benefits to the investing firm by enjoying the surplus profit generation and helps in overcoming the socio- economic problems of hosting nations like unemployment by generating employment opportunities in local economy. It eradicates technological backward problem through technological transfer. It allows to access in the global market platform for the firms and evolve better product through increase in market competition.

The FDI trend in Indian Economy is moving in upward direction that too with the good speed. On the basis of above analysis, it is quite evident to say that Indian economy is one of the most promising investment destination for most of the developed and developing nations. And we should grab this opportunity by liberalizing the rule and regulations for FDI in India. But one question that is striking my mind is that in spite of having good inflow of FDI in India just after the recession period. Why we are not able to attract more FDI. As the growth rate of FDI in India for the period of 2010 to 2014 is not much attractive. So we need to find some factors that are causing slowdown of FDI inflow in Indian Economy.

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