

# Foreign Direct Investment in India: A Global Fund for Local Development

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## Abstract

FDI is the foreign direct investment which comes from foreign countries to host country in the form of investment. FDI trend has been increased with globalization process. It gives benefits to both host and home countries. Especially, developing countries can take greater advantage from FDI for economic development of their nation. The present study analyses the FDI inflow in India in present scenario. This study is purely based on secondary data. The Percentage, Average and Ranking Method are employed for analysis of data. The study found that FDI inflow is steeply decreased in last three years. The Singapore, US and Mauritius are recently the major source of FDI to the Indian economy. In sector wise analysis, it is also found that manufacturing and computer and communication services are sectors in which FDI inflow is relatively more compared to other sectors of the economy. The study finally concludes that FDI is very useful for economic development of any nation. But, its pros and cons must be reviewed timely from host country point of view to ensure that it is supporting economic development of nation.

**Keywords:** Foreign Direct Investment, Country and Sector -wise Inflow and Economic Development

## 1. Introduction

FDI represents foreign direct investment in economic activities. It takes place when an investor establishes foreign business operations or acquires foreign business assets, including establishing ownership or controlling interest in a foreign company. FDIs are commonly made in open economies that have skilled workforce and growth prospect. The importance of FDI is not limited to the bringing of foreign capital for economic activities. It provides plenty of benefits to the both host and home countries. The major benefits are transfer of technology, skill, innovative capacity, managerial practices and access of international marketing networks.

India is one of the developing countries in the globe. The economic activities have been carried out with shortage of capital from a long time and this might have been reason for low production and deficit balance of trade. At present, the scene of Indian economy is changed with lot of changes in major factors including FDI inflow and it is aggressively working towards establishing itself as a leader in industrialisation and technological development in the globe. India is now ranked in 63<sup>rd</sup> position in respect of ease of doing business as per the World Bank report – 2020. The supportive policy, political system, growth prospects, demand, market size etc are the attractive factors for the increasing the FDI inflow. In fact, Indian economy is considered as investment economy by the global investors because of wider scope for growth in future.

## 2. Literatures Review

**Agarwal G., and Khan M. A. (2011)** analyzed the Impact of FDI on GDP through Comparative Study of China and India and they found that 1% increase in FDI would result in 0.07% increase in GDP of China and 0.02% increase in GDP of India. They found that China growth is more affected by FDI, than India's growth.

**Anitha, R. (2012)** found that FDI inflow into the country during the Post Liberalization period. Further, the trends of FDI inflow into the country was projected for a period of five years from 2010-11 to 2014-15 using Autoregressive Integrated Moving Average (ARIMA) forecasting technique.

**Nayak, Ranjan Kumar (2013)** has examined the growth patterns and changing nature of Indian inward Foreign Direct Investment, with an emphasis on the post liberalization period, since FDI, along with trade, has been an important mechanism which was brought about a greater integration of Indian economy with world economy.

**Singh, Gurmeet and Paul, Justin (2014)** revealed that Foreign Direct Investment (FDI) plays an important role in the growth process of a country. There are two types of FDI: Inward Foreign Direct Investment (IFDI) and Outward Foreign Direct Investment (OFDI).

## 3. Need for the Study

FDI is one of the important economic factors and it has greater impact on economic development of every nation. FDI is considered as driving force for economic development, especially for developing nations like India. FDI inflow into the Indian economy can be seen from long time. But, structure of FDI inflow has been changed over a period due to changes in factors which are determinants of FDI inflow. It is very essential to policy makers and decision makers to understand the present structure of FDI inflow in order to make decision towards effective utilization of funds. In this connection, it is decided to make a study on FDI inflow in India at present scenario.

## 4. Objectives of the Study

The study has three main objectives. They are;

1. To study the FDI inflow in India
2. To examine the sector-wise FDI inflow in India
3. To examine the country-wise FDI inflow in India

## 5. Research Methodology

The research methodology of this study includes the data collection, statistical techniques and scope of the study.

### a) Data Collection

The present study is completely based on secondary data. This data has been collected from annual report of Reserve Bank of India and official website of Securities Exchange of Board of India. Besides, other secondary data have also been collected from books and journals.

### b) Statistical Techniques

The simple statistical techniques like Average Method and Ranking Method are employed for analysis of collected data to arrive at reliable conclusion.

### c) Scope of the Study

This study importantly includes the analysis of year-wise, sector-wise and country-wise FDI inflow in

India for recent period from 2019-20 to 2023-24.

### 6. Data Analysis and Interpretation

The data analysis and Interpretation has importantly two sections. First section gives information about total FDI inflow to the Indian economy from 2019-20 to 2023-24. The second section tells about sector-wise and country-wise FDI inflows.

#### Section – A: FDI Inflow in India

The Foreign Direct Investment is an investment made by the foreign investors in India. It is a source by which economic activities can be financed in various sectors of the economy. The sectors have maximum limit barrier for FDI and the flow of FDI into Indian economy is vary from time to time. The details of it are given below.

Sl. No	Year	Amount	Cumulative Amount
1	2019-20	50.0	50.0
2	2020-21	59.6	109.6
3	2021-22	58.8	168.4
4	2022-23	46.0	214.4
5	2023-24 (P)	44.4	258.8

Source: RBI Annual Report – 2023-24

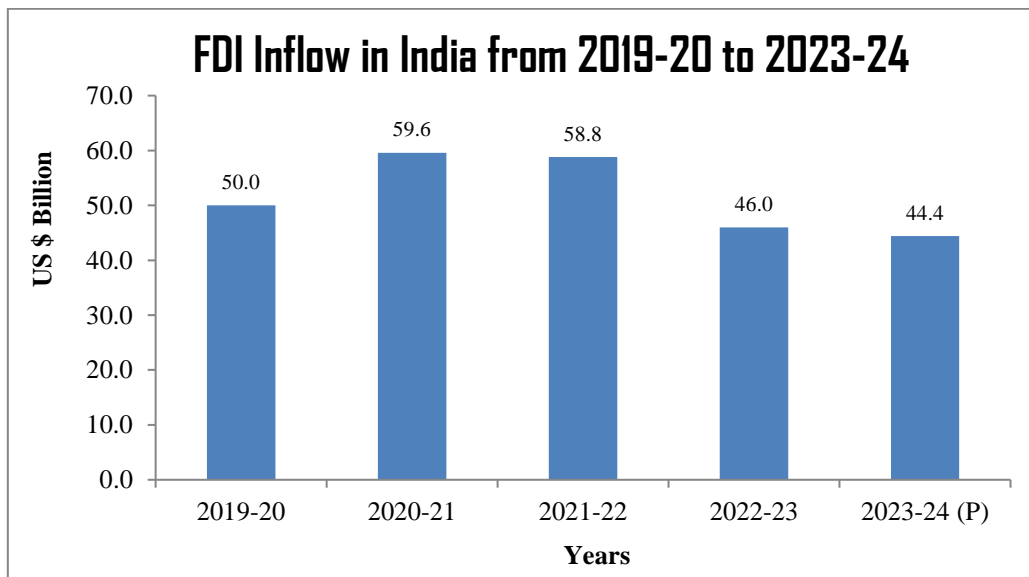


Figure – 1

Table - 1 and figure - 1 indicates the year-wise inflow of FDI in India from 2019-20 to 2023-24 for five years. From the table it is clear that the trend of inflow of FDI is witnessed with ups and downs in the period of last five years. In 2019-20, total inflow of FDI was US \$ 50 billion. In next year i.e., 2020--21, FDI inflow was US \$ 59.6 billion and it was higher than inflow of previous year by US \$ 9.6 billion. Thereafter, trend was reversed into negative and declining was started. In 2021-22, the inflow of FDI was US \$ 58.8 billion. This is further decreased to US \$ 46.0 billion in very next year. Recently, in

2023-24, total FDI inflow was US\$ 44.4 billion. It is hereby found that total inflow of FDI is decreased by every year except one year that is 2020-21. This is importantly post covid period.

## Section – B: Sector-wise and Country-wise FDI Inflow in India

### 1. Sector-wise FDI Inflow in India

As it is stated in the earlier section, there are various sectors in Indian economy. The FDI is flowing to all sectors but amount of inflow varied from one sector to another sector and also year by year. The details of inflow of FDI with sector wise and year wise for the period of five years are given below.

Sl. No.	Sectors	Years					Total	Average	Rank
		2019-20	2020-21	2021-22	2022-23	2023-24			
1	Manufacturing	9.6	9.3	16.3	11.3	9.3	55.8	11.2	1
2	Electricity and Other Energy Generation, Distribution & Transmission	2.8	1.3	2.2	3.3	5.5	15.1	3.0	7
3	Computer Services	5.1	23.8	9.0	5.6	4.9	48.4	9.7	2
4	Financial Services	5.7	3.5	4.7	6.8	4.4	25.1	5.0	4
5	Retail & Wholesale Trade	5.1	3.9	5.1	5.3	4.1	23.5	4.7	5
6	Transport	2.4	7.9	3.3	1.7	3.8	19.1	3.8	6
7	Communication Services	7.8	2.9	6.4	4.5	3.7	25.3	5.1	3
8	Business services	3.8	1.8	2.5	2.0	2.6	12.7	2.5	8
9	Construction	2.0	1.8	3.2	1.4	2.2	10.6	2.1	9
10	Miscellaneous Services	1.1	0.9	1.0	1.2	1.9	6.1	1.2	11
11	Education, Research & Development	0.8	1.3	3.6	1.9	0.6	8.2	1.6	10
12	Restaurants and Hotels	2.7	0.3	0.7	0.2	0.4	4.3	0.9	12
13	Real Estate Activities	0.6	0.4	0.1	0.1	0.3	1.5	0.3	14
14	Mining	0.3	0.2	0.4	0.2	0.1	1.2	0.2	15

15	Trading	0.0	0.0	0.0	0.0	0.0	0.0	0.0	16
16	Others	0.2	0.2	0.4	0.5	0.7	2.0	0.4	13
	<b>Total</b>	<b>50.0</b>	<b>59.5</b>	<b>58.9</b>	<b>46.0</b>	<b>44.5</b>	<b>258.9</b>	<b>51.8</b>	-

Source: RBI Annual Report-2023-24

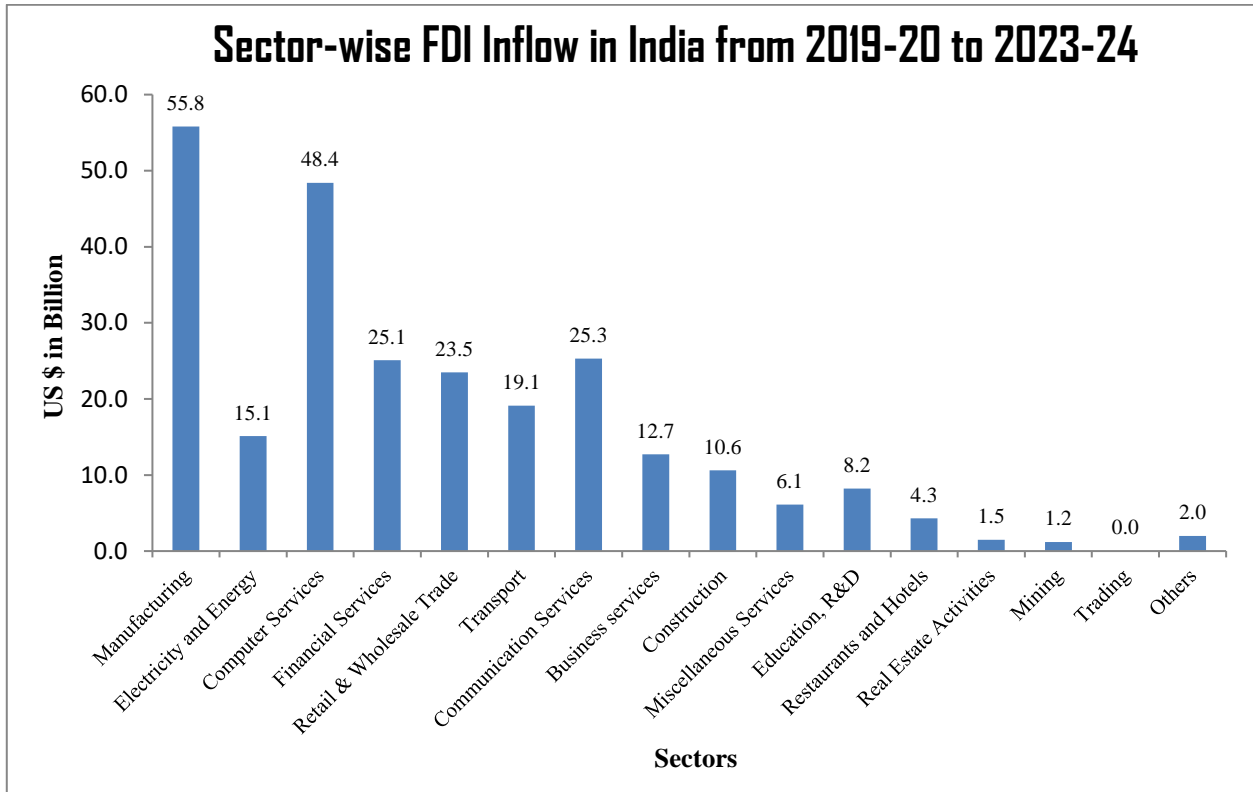


Figure – 2

The table – 2 and figure -2 indicate the inflow of FDI to various sectors of the Indian economy over period of last five years from 2019-20 to 2023-24. Among sectors of the economy, manufacturing sector received total US \$ 55.8 billion from 2019-20 to 2023-24 and it was highest amount received by single sector. The average amount received for the above period is US \$11.2 billion. The computer service is another sector which has received the US \$ 48.4 billion and average of it for five years is US\$ 9.7 billion. This sector is ranked in second position in respect of attracting of FDI.

The communication services and financial services are other prominent sectors of the economy and they have received US \$ 25.3 billion and 25.1 billion respectively. The total amount received by these two sectors is US \$ 50.4 billion for last five years. The retail and wholesale trade is ranked in fifth position in respect of receiving of FDI by receiving US\$ 23.5 billion and average of it for five year is US\$ 4.7 billion. The transport sector is important sector which plays role in transportation of goods and services from one place to another place. This sector got US\$ 19.1 billion and average inflow for the period is US\$ 3.8 billion.

The amount flowed by FDI to electricity and energy generation and distribution sector was US\$ 15.1 billion. This sector ranked in seventh position in respect of receiving of FDI. Subsequently business services and construction are ranked in eighth and ninth position in sector wise ranking. These sectors individually received US \$12.7 billion and US \$ 10.6 billion and total received amount was US \$ 23.3 billion.

billion. The education, research and development received US \$ 8.2 billion and average inflow was US \$ 1.6 billion. The miscellaneous services received US \$ 6.1 billion and ranked in eleventh position. The restaurants and hotels are part of service sector of the Indian economy and received US \$ 4.3 billion from foreign countries as FDI. The real estate, mining and others sector have received total US \$ 4.7 billion.

## 2. Country-wise FDI inflow in India

With similar to the sector-wise FDI inflow analysis, inflow of FDI to the Indian economy is from various countries of the globe. But, amount of inflow is not same from all the countries. The inflow of FDI is more from some countries and it is less from other countries. The clear picture of FDI inflow from various countries is represented in the below table.

Sl. No.	Countries	Years					Total	Average	Rank
		2019-20	2020-21	2021-22	2022-23	2023-24			
1	Singapore	14.7	17.4	15.9	17.2	11.8	<b>77.0</b>	<b>15.40</b>	1
2	Mauritius	8.2	5.6	9.4	6.1	8.0	37.3	7.46	3
3	US	4.1	13.8	10.5	6.0	5.0	39.4	7.88	2
4	Netherlands	6.5	2.8	4.6	2.5	4.9	21.3	4.26	5
5	Japan	3.2	1.9	1.5	1.8	3.2	11.6	2.32	7
6	UAE	0.3	4.2	1.0	3.4	2.9	11.8	2.36	6
7	UK	1.3	2.0	1.6	1.7	1.2	7.8	1.56	8
8	Qatar	0.1	0.2	0.2	0.0	1.0	1.5	0.30	15
9	Cyprus	0.9	0.4	0.2	1.3	0.8	3.6	0.72	10
10	Canada	0.2	0.0	0.5	0.8	0.6	2.1	0.42	13
11	Germany	0.5	0.7	0.7	0.5	0.5	2.9	0.58	11
12	Luxembourg	0.3	0.3	0.5	0.5	0.4	2.0	0.40	14
13	France	1.9	1.3	0.3	0.4	0.4	4.3	0.86	9
14	South Korea	0.8	0.4	0.3	0.3	0.4	2.2	0.44	12
15	Australia	0.0	0.0	0.0	0.1	0.3	<b>0.4</b>	<b>0.08</b>	16
16	Others	7.0	8.5	11.2	3.5	3.0	33.2	6.64	4.0
	Total	50.0	<b>59.5</b>	58.4	46.1	<b>44.4</b>	258.4	51.7	-

Source: RBI Annual Report – 2023-24

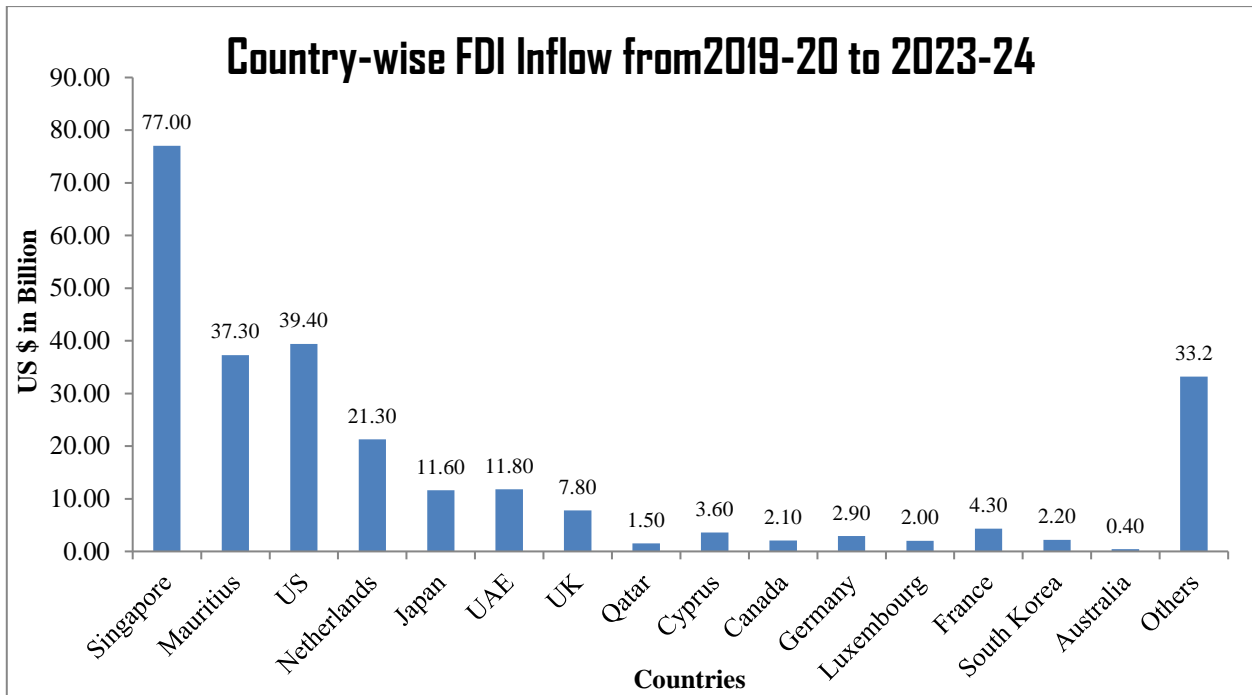


Figure – 3

Table 3 and figure 3 indicate the inflow of FDI to India from various countries for last five years from 2019-20 to 2023-24 and ranking of countries based on highest inflow of FDI. In the observation, it is noticed that Singapore is playing very significant role in FDI inflow to Indian economy. The total FDI inflow from Singapore is US \$77 billion and annual average amount for last five years is US \$ 15.4 billion. The Singapore ranked in first position as FDI inflow from this country is highest in recent years. The US is also playing a role in providing FDI to India by providing highest FDI after Singapore. The total FDI inflow from this country is US \$ 39.4 billion and the annual average amount is US\$ 7.9 billion. Subsequently, The Mauritius followed by Netherlands are ranked in third and fifth position in country-wise ranking. The total FDI inflow from these two countries is US\$ 37.3 billion and US\$ 21.3 billion.

The UAE and Japan stood in sixth and seventh position in ranking by providing total US \$ 11.8 billion and US \$ 11.6 billion respectively. The UK and France followed by Cyprus stood in eighth, ninth and tenth position in ranking and total FDI amount from these three countries is US \$ 15.7 billion for last five years. The Germany and South Korea together provided total FDI of US \$ 5.1 billion and these countries ranked in eleventh and twelfth position in ranking. The FDI received from Canada is almost equivalent to FDI inflow of Luxembourg with little difference. The inflow of FDI received from Switzerland. The inflow of FDI from Qatar and Australia is relatively low and total FDI from each of these countries is less than US\$ 1.5 billion.

Finally it can be concluded that countries, namely, Singapore and US followed by Mauritius are major source of FDI inflow to India’s economy in recent times. The inflow of FDI from these countries is highest in last five years.

## 6. Findings and Suggestions

### a) Findings

The following are the major findings of study

1. Inflow of FDI to Indian economy had witnessed with decreasing trend during the study period which



is post-covid period.

2. In the sector-wise analysis, it is found that manufacturing sector followed by computer service and communication services received highest FDI inflow in the last five years from 2019-20 to 2023-24.
3. In the country-wise analysis, it is important to note that Singapore followed by US and Mauritius are in first, second and third position in providing of FDI to the Indian economy on average basis during the study period.
4. It is identified that Australia is ranked in the last position based on size of FDI inflow as per country-wise analysis.

#### **b) Suggestions**

The following are the suggestions based on findings of the study

1. FDI is direct foreign capital from other countries of globe. Therefore, it should be used very wisely with strict regulations in all sectors of economy with primary aim of economical development.
2. It is advised that more programmes on financial literacy and inclusion should be conducted in order to cultivate the habit of savings and investment among the people to make Indian financial system strong enough to supply required capital to the economic activities.
3. As India is a developing country, it would be suggested that fund blacking strategy must be adopted to avoid immediate shifting of profit on investment by foreign investors/companies.
4. FDI is good to the economic development. Although, it would be better that internal capital formation must be encouraged to become financially self reliant country.

#### **7. Conclusion**

Since independence major setback of Indian financial system is low capital formation and it has led to shortage of capital for economic activities. This caused for slow economic activities and in turn it results for arising of many problems, among them, low GDP and unemployment were major problems. Therefore, in order to boost Indian economy at global level, Govt introduced liberalization, privatization and globalization policy (LPG) and by which FDI has been warmly welcomed to get cure from basic problem that is shortage of capital for economic activities.

In the discussion, it is noticed that the inflow of FDI is increased with slight variation in some years from the beginning. But, after 2020-21 inflow was steeply decreased and it might be due to the reason of covid effect. It is also noted that manufacturing, computer service followed by communication service sector have received highest FDI during study period. The study importantly found that Singapore, US and Mauritius are major source of FDI to Indian economy. Finally it can be concluded that FDI is foreign fund for economic development of any nation, but its pros and cons must be reviewed from time to time to make sure that it is helping economic development of nation.

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