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COMPARATIVE ANALYSIS OF FDI INFLOW IN INDIA SINCE 1991

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ABSTRACT

FDI is the buzz words of today's modern economy. The concept of Globalisation has overcome all geographical and cultural barriers bringing all the economies in vicinity and opening more areas of business together. FDI is the result of Globalisation with add-on of liberalization policies based on a simple concept of opportunity gain by utilising niche and cost advantage over diversified geographical market. Economic reforms of 1991 have proved boon the economy of the India. Liberalization policy of India has literally lubricated the capital boost of the economy .Further India's incremental participation in trade organizations such as WTO, WCO, WFTU, G-20, BIS, AIIB, ADB, WCO has provided it with the shimmering advantage to be the FDI magnet.

KEYWORDS*: FDI, Economy, Globalisation, Liberalisation, Economic Reforms.*

Introduction

The Organization for Economic Cooperation and Development has given the standard definition for foreign direct investment. It defines FDI as the total investment in the acquisition of permanent management interest (10% or more of voting stock) in the firm's operations in any economy other than the home investor's home country. It is also emphasized that the fact that the 10% most talked-about limit is recommended to ensure international consensus.FDI gained a new position in India during the post-liberalization period. With the changed regulations and reforms by Indian government the investment became easier through FDI. Slow but productive procedure followed by the government has benefited the country and the whole economy. FDI policies and regulations in India have gone through various waves of amendments to promote it in the safe economic regime. With the steady rise in economic growth and greater power, the Indian economy has taken a global base. India's impressive growth in the global sector is driven by many factors - strong institutional infrastructure, efficient human resource capital, skilled workers, emerging middle class, strong business culture, growing productivity, strong independent sector, rapid technological development, etc.

India being a developing country suffers with a huge investment gap between the domestic savings and investment requirements which is duly bridged by the FDI investments. Economic reforms of 1991 have proved boon the economy of the India and since then easement FDI in India has become the fiscal wizard for the country's economy.

Review of Literature

FDI has always been the subject of thorough study for many scholars and they have contributed remarkably to the subject. It is the references of their studies which eased FDI to firm its footings in India. Most of the studies from the pile are focused towards quantitative analysis of the FDI whole the others are revolving around the effect of FDI on domestic industries. Some of reviews are discussed below:

Abby & James (2005) in their paper competitively studied the national level of both India and China with respect of income disparities at state level. This study showed that domestic factors are more prominent than that of globalization factors for deciding the flow of FDI.

Chen, C. (1997) The study shows that countries with large market and liberalized policies attract greater FDI as compared to the one who lack the factors. This study also focused the comparative analysis of India with china and revealed that Chinas FDI charm is moderately above than that of India

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Sharma (1998) investigated indicators of export performance in India. The results of the analysis revealed that the demand for Indian exports increased as export prices declined with global prices. Foreign investment does not appear to have a significant statistical effect on export performance even though the FDI coefficient has a positive signal.

Kumar N. (1995) in his study talked about the changing characteristics of FDI in Asian regions. The study focused on global governance and was studied by FDI as a product of a real product. His research has shown that the tendency to shift productivity through industrialization to developing countries helps developing countries to improve their exports and that there are some serious barriers to negative impacts on the country's domestic industries.

Renuka et al. (2013) noted that India should have opened up the trade sector to foreign investors. India only allows that foreign trader who starts investing in end-to-end sales. He pointed out that the benefits associated with FDI in-store investments in India are clearly more than the evils associated with it.

Khan & Qazi (2014) Trend analysis has been carried out to study and identify the pattern of foreign direct investment in India in the study. Secondary data was used by the researchers to collect the data. RBI bulletin and annual reports were the major source of data for the study. ANOVA, percentage, CAGR were the major statistical tools used in the research.

Research Methodology

The present study is descriptive in nature where published data related to FDI has been compiled and computed to draw the various results based on descriptive statistics. The present study is solely based on Secondary data which has been extracted in raw form from various authentic website and published Govt reports. The sources of information collected from various journals, articles and repo**1.** Annual reports and Publications of Reserve Bank of India which includes real time handbook of statistics on Indian economy and report on currency and finance. The secondary data involved in the research has been collected from the following sources:

- Annual reports and Publications of Reserve Bank of India which includes real time handbook of statistics on Indian economy and report on currency and finance.
- Online publications and press releases of Department of Industrial Policy and Promotion and Official Secretariat of Industrial Assistance.

Duration of the Research

The FDI inflows covered in this study is analysed after the period of trade liberalization to track the magnitude of FDI in India. Data were compiled from 1991 to 2018.

Objectives of the Study

Every learning must have to put together its purpose in order to noticeable and turn out to be more reasonable and industrious. Any task without sound objectives is like trees without roots. The major objectives of the study are as follows:

- To Examine the trends of FDI Inflow in Indian economy after economic reforms.
- To Examine the changes in FDI inflow on periodical bases.
- To make a comparison of FDI inflow on decadal bases i.e.(1991 to 2000, 2000 to 2010, 2010 to 2018).

Trends of FDI after Post Liberalisation Period

This section studies the trends of FDI in the Indian economy with specific emphasis over time period. It has been discussed from the broad historical and contemporary prospects. The base year of this trend analysis is the year 1990, which marks the significant changes of FDI in the economy of the country. To study the FDI pattern and trend in India in the best way the study has been divided into four groups as per the financial and economic trend of the country. The analysis has been classified accordingly. These periodical classifications are as follows:

1991-2000 (Period – I)

This period witnessed the changing scenario in Indian financial and political environment. The opening up of Indian economy by the efforts of Narasimha Rao government resulted into long term benefits for India. The Narasimha Rao government focused on one issue at the time - the opening of the economy and the avoidance of debt default. There were not a lot of plans that interfered with his government's attention and focused on the continuation of the liberal measures in Parliament amidst major opposition from within and outside the party, and even though they were few. Following were the major steps proceeded by the government during this period.

- The liberalization of Industrial Policy in 1991 introduced two-way approval process for FDI
- Allowance of up to 50% FDI in 35 high priority industries through automatic route.
- Allowing Foreign technical collaboration under automatic route (subject to specified limits)
- Imposing dividend-balancing condition on all sectors (later restricted to 22 notified consumer items)
- 1996 marked FDI expansion from 35 to 111 industries by dividing them under 4 distinct categories (Part A–up to 50%, Part B–up to 51%, Part C–upto 74%, and Part D-up to 100%).
- In 1998 again FDI was restricted by limiting the scope of foreign companies starting new joint-ventures, using the same technology as an existing Joint Ventures.
- FIPB was constituted in this period in August, 1991. It is a single point online portal which addresses queries facilitates the submission of proposal of FDI online. It is highly convenient and it brought all the information regarding foreign direct investment online.

2001-2010 (Period – II)

This period reflected the effect of globalization in the Indian economy marked the fourth phrase of the FDI policy. It can further be classified into 2001-2001 and the dusk of the decade i.e. 1999-2000 when another sharp shift took place since when differentiation between 'ownership' and 'control', to calculate the total both direct and indirect foreign investment in an Indian companies also since this period Indian companies with FDI, which were owned and controlled by Indian residents were allowed downstream investments without any government approval. Following were the major steps proceeded by the government during this period.

- The year 2000 marked a paradigm shift from where, except for a negative list, all the remaining activities were placed under the automatic route.
- Dividend balancing condition was removed.
- Restriction cap were gradually raised in several sectors and / or activities.
- NBFC Sector was allowed on the automatic route.
- FDI investments in insurance and defence sectors were raised to a cap of 26%.
- In the year 2005 Sectoral Cap of telecom sector was increased from 49% to 74%.
- In the year 2006 Retail sector was opened up to 51% in single brand retail.

2010-2014 (Period – III)

This period was the continuation of rationalization process. In the beginning of the year all existing FDI regulations were consolidated into a single document for ease of reference and downstream investment through internal accruals were specifically permitted. Following were the major steps proceeded by the government during this period.

- In the year 2011allowed issue of shares for against non-cash considerations (for payment of import of capital goods/ machinery & equipment and pre-operative/ pre-incorporation expenses)
- Upfront fixation of Price for convertible instruments were replaced by flexibility in fixing pricing through a formula-based calculation.
- Government approval for establishment of new joint ventures in the 'same field' was removed.
- Non-resident companies were allowed to have 100% owned subsidiaries in India.
- FDI got allowed in Limited Liability Partnerships.

2014- 2018 (Period – IV)

The year 2014 marked the bullish movement in FDI investors with the introduction of "Make in India" scheme. This era was the golden era of positive changes in the India's FDI regime. This era carried over 37 major reforms including 6 in 2014, 22 in 2015, 9 in 2016 and various other changes in sectoral caps and limits with many schemes like "Invest India", various international summits and stepping towards various foreign corridors and zone within the extended area of the country.

FDI Trends in India

Trend refers to pattern of flow of a phenomenon. A trend study helps to understand the movement of the subject of the study with that of the variables taken thereto. Studying FDI trend patterns also helps to do statistical planning for phasing betterment. This study of FDI trend is based on the statistical data compiled by RBI since the year 1991 and is divided into three tables with explanations followed.

The constraints of this data are as follows:

- The data between the period 1995-96 onwards include acquisition of shares of Indian companies by non-residents under Section 6 of FEMA, 1999. Data on such acquisitions are included as part of FDI since January 1996. Data for 2017-2018 is provisional
- The data between the period 2000-01 on FDI have been revised since with expanded coverage to approach international best practices.
- Negative (-) sign indicates outflow.
- Direct Investment data for 2006-07 include swap of shares of 3.1 billion.
- Table is in the terms of US $ in millions of multiples to make it handy for worldwide study purposes.
- India started emerging in FDI outflows. The representation of such data from the year 2000 only with net investment thereto. Also, such data on outflow is not readily available on SIA site for 1991-2000. The following tables shared below showcase the trend of FDI in detail.

Table 1: FDI Data for the Period 1991-2000

Year	Direct Investment to India		Increment concerning Previous Year	
	Rs Billion	US $ Million	Rs Billion	US $ Million
1	2	3	4	5
1991-1992	316	129	-	-
1992-1993	965	315	649	186
1993-1994	1838	586	873	271
1994-1995	4126	1314	2288	728
1995-1996	7172	2144	3046	830
1996-1997	10015	2821	2843	677
1997-1998	13220	3557	3205	736
1998-1999	10358	2462	-2862	-1095
1999-2000	9338	2155	-1020	-307

Source : SIA reports during the said years

The Interpretation of the Following Table is Shared below in Brief:

- The hike in the year 1992-93 is reflecting the 100% automatic approval route in 34 priority sector and Opening of Indian mining sector for FDI during the year 1991-92.
- India's surge for liberalization further increased FDI inflow by Rs 2288 billion in the year 1993-94 with the permission of repatriation to FDI investors and this trending increment kept its pace in the following years.
- Since 1996-1997 India further liberalized FDI policy in mining and also allowed automatic approval in priority industry and the best feature of this era was that there will be no need for Indian companies to get prior clearance from the RBI for inward remittance of foreign exchange / for the issuing shares to foreign investors. But magnitude of this hike was not much as compared to previous years.
- With the introduction of FEMA (in replacement of FERA) in he year 1998-1999 and Foreign Investment Implementation Authority (FIIA) in 1999-2000 India further tried to lure FDI but failed to show positive movement due to then prevailing economic crisis in Asia.
- The year 1997 marked the start of Financial crisis in Asia starting from Thailand. GENEVA conference held on, 27 April 1999 (UNCTAD) revealed that Foreign direct investment (FDI) flows to developing Asia as a whole weathered the crisis during the period,. Pointing towards the crisis in the Asia as a whole and this crisis affected India's FDI negatively during the period.

Though India was not remarked as the country majorly affected by this crisis but fall in FDI by Rs2862 billion in 1998-1999 and by Rs1020 billion in 1999-2000 depicted the grey shade of the crisis though recovery started in the later year itself.

- Besides the above mentioned economic crisis; negative growth rate during the period 1998-2000 primarily due to falling in the share of major investing countries like USA , Japan and Mauritius, steep fall of approval by 55.7% in 1998 as compared to 1997 and slackening of fresh equity in the country.

Table 2: FDI Data for the Period 2001-2010

Year	Direct Investment to India		FDI by India		Net Foreign Direct Investment	
	Rs Billion	US $ Million	Rs Billion	US $ Million	Rs Billion	US $ Million
1	2	3	4	5	6	7
2000-01	184.04	4031	34.80	759	149.24	3272
2001-02	292.45	6125	66.15	1391	226.30	4734
2002-03	243.97	5036	88.03	1819	155.94	3217
2003-04	198.30	4322	88.86	1934	109.44	2388
2004-05	269.47	5987	102.02	2274	167.45	3713
2005-06	394.57	8901	260.32	5867	134.25	3034
2006-07	1026.52	22739	677.42	15046	349.10	7693
2007-08	1394.21	34729	756.43	18835	637.76	15893
2008-09	1906.45	41738	905.39	19365	1001.06	22372
2009-10	1578.19	33109	718.36	15143	859.83	17966

Source: SIA reports during the said years

The interpretation of the following table is shared below in brief:

- As per the UNCTAD report published in 2002 “FDI flows to developing showed down trend except Africa.” And is not expected to turn back up in the same year. Besides positive changes by bringing FEMA and FIIA and even after abolishing dividend balancing condition on consumer goods in India; it got infected with ths flue and showed decline in the FDI inflows in 2000-01.
- Hard made efforts done by the country started bearing fruits in the year 2001-02 with a growth of Rs 108.41 billion over the previous year. FDI just started flourishing in the previous year was dragged down in the year 2002-03 because of principally slackening of fresh equity injected through FDI during the year.
- A decline of $ 379 billion in fresh equity capital inflows in 2003-04 again pulled the FDI trend line down in this year.
- M& A started prevailing the preference of FDI investors in India and the graph started stood up in the year 2004-05 with an increase of Rs 71.17 billion as compared to last year.
- India again got infected by the inflationary explosion in global commodity prices, in 2007-08 and showed a negative growth in FDI inflows.
- Indian Government turned the table “U” in the year 2009-10 by relaxing FDI norms in various sectors, allowing 100% FDI in maintenance Repair and Overhauling, permitting 100% FDI

Table 3: FDI Data for the Period 2011-2013

Year	Direct Investment to India		FDI by India		Net Foreign Direct Investment	
	Rs Billion	US $ Million	Rs Billion	US $ Million	Rs Billion	US $ Million
1	2	3	4	5	6	7
2010-11	1323.58	29029	782.57	17195	541.01	11834
2011-12	1549.61	32952	517.94	10892	1031.67	22061
2012-13	1469.54	26953	387.68	7134	1081.86	19819
2013-14	1868.30	30763	568.60	9199	1299.69	21564

Source : SIA reports during the said years

The interpretation of the following table is shared below in brief:

- The sludge of 2009-10 continued pulling FDI down in the year 2010-11
- India witnessed significant moderation in FDI inflows in 2010-11 as compared to other EMEs in Asia and Latin America who received large inflows during the same period. FDI in India again rested sluggish, while other comparative economies showed recovery and witnessed a big decline in the Foreign Equity investment in the country.
- In 2011-12 FDI in India spiked 34 %to a record $46.8 billion. There were some major player in the said period viz Vedanta (London-listed) acquired a controlling stake of $9 billion in Cairn India. BP (British major) purchased $7.2 billion worth stake in oil and gas fields operated by Reliance Industries and Vodafone Group purchased partner Essar's shares in their telecom joint venture. These all resulted in positive movement in FDI flows in India.
- FDI in India dipped by 38% to $22.4 billion in the year 2012-13 and it was wired that industry environment of the country needs improvement as because of it Government's efforts to promote India as a preferred investment destination does not seem to be yielding fruits.
- Though service sector faced a drop in FDI in 2013-4 by 54%,still India managed to record 8% growth as compared to $24.29 in the last fiscal as against $22.42 billion in 2012-13.

Table 4: FDI Data for the Period 2014-2018

Year	Direct Investment to India		FDI by India		Net Foreign Direct Investment	
	Rs Billion	US $ Million	Rs Billion	US $ Million	Rs Billion	US $ Million
1	2	3	4	5	6	7
2014-15	2158.93	35283	246.75	4031	1912.19	31251
2015-16	2942.58	44907	584.76	8886	2357.82	36021
2016-17	2832.92	42215	443.79	6603	2389.13	35612
2017-18	2539.77	39431	-589.25	-9144	1950.52	30286

Source: RBI 2018 annual issue

The interpretation of the following table is shared below in brief:

- In 2014-2015, India launched "Make in India" initiative (September 2014) further liberalizing FDI policy for 25 sectors with many other reforms like increase in the upper limit of foreign investment from 26% to 49% in insurance sector.
- As of April 2015, FDI inflow in India increased by 48% showing the positive results of the launch of "Make in India" initiative.
- India ranked 15th in the world in 2013 in terms of FDI inflow, which rose to 9th position in 2014
- FDI inflows in the country grew by 8.67 % in 2016-17, 29 %in 2015-16, and 27 %in 2014-15
- Launch of "Make in India", in India followed an positive trend in FDI. FDI Equity Inflows showed increase of 63% while FDI Inflow hit the high of 55% mark .
- FDI inflow from April 2014 to December 2017 stood US$ 208.99 billion which is 39.24% of the overall FDI received in the country since April 2000 (which is US$ 532.552 billion).
- Investment friendly policies and opening up of FDI allowance in various sectors made India cross US$ 50 Billion mark in FY 2015 - 16 and US$ 55.45 Billion in FDI. The highest FDI inflow of US$ 60.8 Billion in 2016 - 17, was also witnessed in this period.

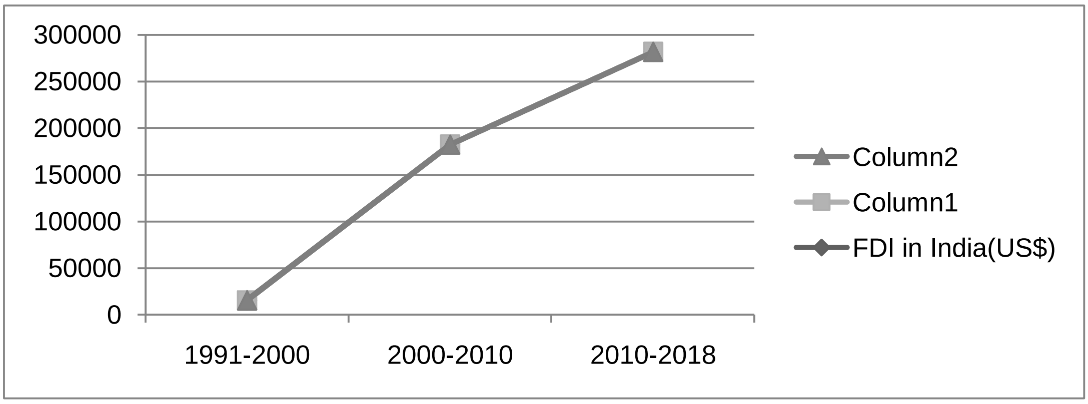
Comparative Analysis of FDI in India since 1991 to 2018

Table 5: Cumulative Comparison for the Three Periods Analysed above

Year	Direct Investment to India	
	Rs Billion	US $ Million
1	2	3
1991-2000	57348	15483
2000-2010	7488.17	166717
2010-2018	16685.23	281533

Source: SIA reports during the said years

Graphical Representation



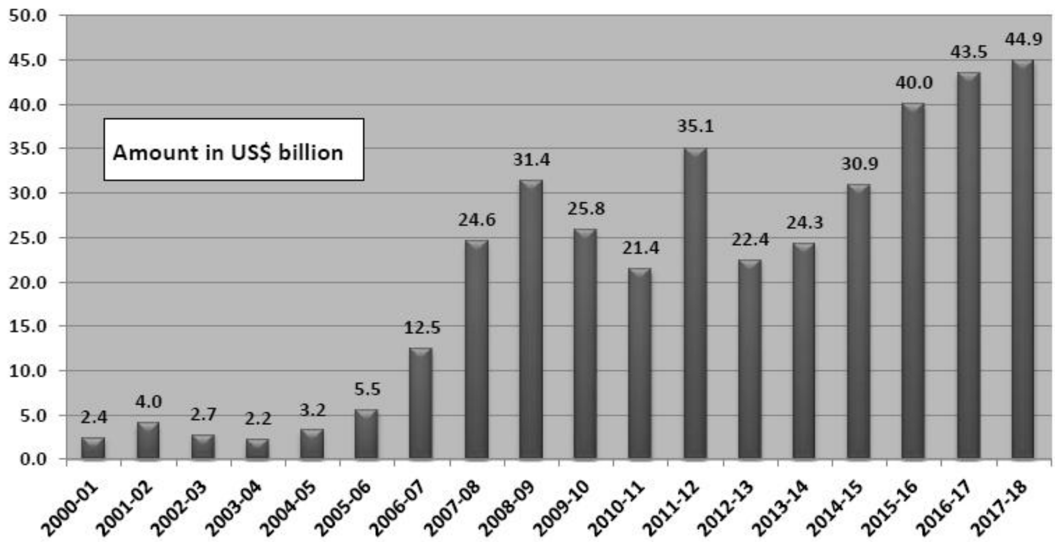
The interpretation of the following table is shared below in brief:

- Gradual increase in the FDI in India is visible.
- FDI is highest in India in the year 2015-16 implicating the positive impact of FDI policy reforms in variety of sectors of the country. FDI inflows touched the highest FDI inflow of the ages amounting to US$44907 million during the year. Which quantitatively proves that India has prospects to attract way more FDI inflows by liberalizing and streamlining the FDI regime.
- During the year of highest inflows of FDI in the country i.e. in the year 2015-16 also NET FDI is not the highest of ages owing to high level of FDI outflows amounting to US$8886 million congruent to the level of gross inflow resulting in net FDI for the period being US$36021 million
- Moving forward towards the year 2016-17 we notice that a drop in the level of FDI outflows have balanced the Net FDI in India ranking it as the highest Net FDI inflow of the years studies above amounting to US$36021 million.
- FDI inflow is lowest in the year 2000-2001 amounting to only US $ 184.04 million .It attributed the decline mainly to a slowdown of world economic growth (1.3%, as compared with 4.0% in 2000) and a decrease in cross-border mergers and acquisitions (M&As).
- Table above also make us form an opinion that FDI averages are follow the pattern of political changes in the country the average of the FDI inflows as per the Five years of the Central government ruling party shows increasing movement it stood US $ 223.412 million from 2000 to 2004, US $895.796 million during 2004-2009, US$1478.092 million during 2009-2014 and US$ 2602.794 million during the present block which shows a increasing trend and also reflects the liberal view of the country and priority of FDI inflows on the agenda of political parties of India proving semi -neutral variant of political changes in the Indian environment.
- India's changes in the FDI policy and efforts like "Make in India" have bared the fruits to the nation.
- FDI showed a contract of 7% to US$ 33.49 billion during April-December during 2018-19 in the current fiscal, according to commerce and industry ministry data. (Foreign fund inflows during April-December 2017-18 stood at US$ 35.94 billion)
- Decline in FDI in the period 2018-19 is expected to put pressure on India's Balance of Payments.
- Graphical presentation of the data of all the three decades show bullish trend in the FDI investors investing in India. Analyzing the trend pattern in combination with the attitude of Government of India towards FDI we can forecast the another hit in the decade of 2011-2020.

FDI Equity Inflows

Equity inflows refers to the ownership rights invested in India by the foreign investors. A study of this graph clarifies that what is the actual lust in the FDI investors for choosing India as their investment destination. The Chart below presents the picture:

FDI Equity Inflows in India



Source : DIPP, FDI Annual issue 2017-18

The graph depicts the aggression of the FDI investors for doing equity investment in India, the moving average of the data reveals that the country is a good attraction for making even risky investors. The investment became bearish during 2010,2011 and 2013, 2014 years but again gained its bump and is operating above the resistance level since then. Graph indicates that investors are keen to take risk and are bullish towards the PE of the investment in the country.

Conclusion

In between the irregular movement of capital flow during 1990s, in comparison to the other sources, FDI resulted into main source of in growth especially in developing economies. It is found to be more stable in the volatile environment than other sources. Foreign Direct Investment acted as a catalyst in the rapid development of India in the post-liberal period.

After the economic crisis in 1991, the Indian government embarked on a program of freedom and economic transformation to bring about rapid and strong economic growth and towards global economic integration. International trade enhances global economy and integration. Internationalization by trade is an important basis for the production of domestic wealth, especially when a country seeks expertise in those economic activities where it had comparative advantages. Trade has been the lifeblood of economic life since liberalization and introduction of FDI in India and the concept of globalization further heightened it at the international level.

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