



An analytical study of foreign direct investment in India during the financial year 2016-2017

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Abstract

Foreign direct investment is an integral part of an open effective international economic system and a major means to development. Foreign direct investment is recognised as a powerful engine for economic growth. FDI brings complementary assets such as technology, management and organizational competencies and there are spill over effects of these assets on the rest of the economy. The purpose of this paper is to analyse the determinants of FDI, sources of FDI inflows in India during the financial year 2016-2017 since, encouragement of FDI is an integral part of the economic reforms process of developing nations because it is seen as an instrument of technology transfer, managerial skill, and augmentation of foreign exchange reserves and globalization of the economy. Economic growth, continuing trade regimes, and increased competition among firms are likely to derive the global expansion of MNC activity.

Keywords: foreign direct investment, determinants of FDI, economic growth, globalization

1. Introduction

Foreign Direct Investment is an investment made by an individual or a company in one country with an intention of establishing new business operations or obtaining business assets in host country. Foreign direct investment is possible only when an individual or business firm owns more than 10% of a foreign company's capital or more of the ordinary shares or voting power of an incorporated venture or the equivalent of an unincorporated venture.

Foreign Direct Investment (FDI) plays a decisive role in the process of economic development predominantly in the developing country, where the resources like technology, skills, managerial expertise and competencies are limited to a certain extent. It plays a vital role to boost the economic growth of a country since; it offers financial assistance in the name of cash inflows which will help the domestic business operations to expand their operations at global level. One of the economic aspects of globalization is increasing the foreign direct investments by widening cross-border operations. Moreover it helps to attain a financial stability and economic growth with the help of investments in different sectors and which will aid to maintain the balance of payment of a country by increasing cash inflows with the pace of reducing trade deficit. The developed countries also needs cross-border investment, but for different reasons. The international corporations of these developed nations accelerate investments in order to strengthen their interior businesses by restructuring its processes.

2. Determinants of FDI

There are various factors that influence the FDI inflows into a country. The investors evaluate different facets of a country before investing in it. The relative importance of these

determinants of FDI varies not only between countries but also between different types of FDI. Traditionally, the determinants of FDI include the following:

1. Size of the Market: The developing countries possess substantial markets where the consumers demand for certain goods far exceed the available supplies. This demand potential is a big draw for many foreign enterprises. In many cases, the establishment of a low cost marketing operation represents the first step by a multinational company into the market of the country. This establishes a presence in the market and provides important insights into the ways of doing business and possible opportunities in the country.
2. Political Environment: Foreign investors will analyse the prevailing political conditions before contribute huge amount of capital into a country. The instability political environment will prevent the foreign inflows and which will set a drawback for economic opportunities also. As of now India is concerned one of the most open economy for foreign direct investment compared to other nations.
3. Legal framework for FDI: Foreign Direct Investment in India is carried out in accordance with the FDI Policy which is framed and declared by the Government of India. The rules and administrative procedures of present Indian government's FDI policy helps to build a strong business environment by ensuring foreign capital inflows into our country. The government has taken many initiatives in recent years by liberalising FDI norms across many sectors such as defence, PSU oil refineries, telecom, power exchanges, and stock exchanges, among others.
4. Economic factors: Different economic factors like level of price, elasticity of demand and supply, labour costs,

government policy, taxes and interest rates motivates the inflow of FDI. A number of changes have undertaken by Government of India in the form of tax exemption, subsidies to the foreign investor who establishes a new enterprise and restructuring economic policies in order to attract foreign investments and to promote exports.

5. **Stable Policies:** Stable Government policies and strong socio- economic policies have attracted investors at global level. Changes in policies will have effect on the business. Absence of excessive fluctuations in the economy will boost the different sectors with a constant output growth by attracting more foreign investments.
6. **Availability of Natural Resources:** India has large volume of natural resources such as coal, iron ore, Natural gas etc. If natural resources are available they can be used in production process or for extraction of mines by the foreign investors.
7. **Basic infrastructure:** In India there is a need for improving basic infrastructure facilities and services which will aid in developing different economic activities thereby help in economic development of the country moreover which are must for the success of the business. A sound legal system and modern infrastructure is required in order to support an efficient distribution of goods and services in the host country.
8. **Inflation:** Since FDI follows the GDP rate and economic growth, low inflation rate is considered to be a sign of internal economic stability in the host country. High inflation rate indicates incapability of the government to balance its budget and failure of the central bank to conduct appropriate monetary policy.

3. Trends and Pattern of FDI in India (2014-2017)

FDI trends from 2014-15 to 2016-17

- Total FDI equity inflow received in the last three financial years is \$ 114.41 billion. This is 40% more than the previous three financial years (2011-12 to 2013-14 when the total FDI was \$ 81.84 billion).
- FDI equity inflow received through approval route was \$ 11.69 billion, which is 64% higher than the previous three years (\$ 7.15 billion).
- Manufacturing sectors witnessed a growth of 4% in comparison to previous three financial years (From \$ 48.03 billion to \$ 50.09 billion).
- Total FDI inflow during last three years increased by 38%.

FDI trends after the launch of Make in India initiative (October 2014 to March 2017)

- Total FDI equity inflow received in the last 30 months since the launch of Make in India initiative is \$ 99.72 billion, which is an increase of 62% compared to previous 30 months (April 2012 to September 2014 (\$ 61.41 billion).
- Manufacturing sectors witnessed a growth of 14% in comparison to previous 30 months (from \$35.52 billion to \$40.47 billion).
- Total FDI inflow increased by 51%, i.e. \$137.44 billion in comparison to \$90.98 billion of the previous 30 months

before the launch of Make in India initiative.

FDI trends in 2016-17

Foreign Direct Investment (FDI) inflows into the country touched a new high of \$60.08 billion in 2016-17.

- Total FDI equity inflow received during 2016-17 is \$ 43.48 billion, which is an increase of 9% compared to 2015-16 (\$ 40.00 billion). This is the highest ever for a particular financial year.
- The FDI equity inflow received through approval route during 2016-17 was US\$ 5.90 billion, which is 65% higher than the previous year (\$ 3.57 billion).
- Manufacturing sectors witnessed 52% growth in comparison to 2015-16 (i.e. from \$ 13.35 billion to \$ 20.26 billion).
- Total FDI inflow grew by 8% to \$60.08 billion in 2016-17 in comparison to \$55.56 billion of the previous year. This is the highest ever FDI inflow for a particular financial year. Before this, the highest FDI inflow was reported in 2015-16.

According to the release of Ministry of Commerce and Industry, India has now become the “topmost attractive destination for foreign investment.” It says, “Increased FDI inflows in the country are largely attributed to intense and bold policy reforms it (government) undertook to bring pragmatism in the FDI regime.”

Reform measures undertaken by Modi government since 2014 include liberalisation of conservative sectors like rail infrastructure and defence, medical devices, and construction development. In September 2014, the government had launched ‘Make in India’ initiative which led to an increase of around \$9 billion in the first year itself. In the last three years since the NDA government came to power, 21 sectors covering 87 areas of FDI policy have undergone reforms.

FDI policy provisions were overhauled in sectors such as Construction Development, Broadcasting, Retail Trading, Air Transport, Insurance, and Pension. The introduction of composite caps in the FDI policy and raising the FIPB approval limit were also undertaken in the same year to promote ease of doing business in the country.

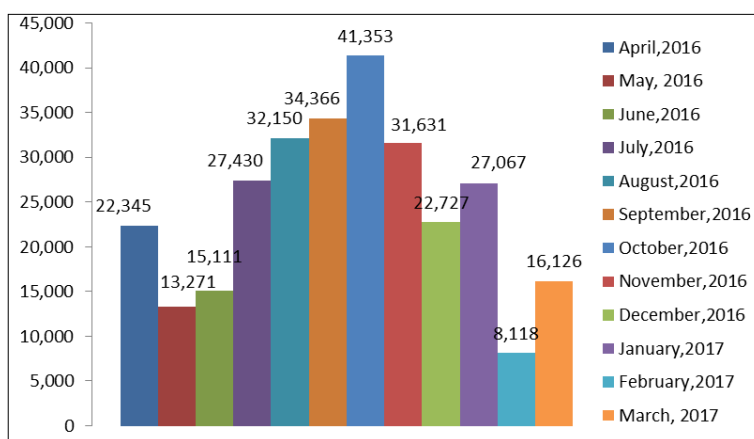
4. Sources of FDI in India

Foreign direct investment is treated as an important mechanism for channelizing transfer of capital and technology and thus perceived to be a potent factor in promoting economic growth in the host countries. Encouragement to FDI has been an integral part of the India’s economic reform process. It has gradually opened up its economy for foreign businesses and has attracted large amount of direct foreign investment. India has broadened the sources of FDI in the period of reforms. There were 170 countries investing in India in 2017 as compared to 120 countries in 2008. Thus the number of countries investing in India increased after reforms. After liberalization of economy Mauritius, Singapore, Netherlands, Cayman Islands and many more countries predominantly appears on the list of major investors apart from U.S., U.K., Germany, Japan, UAE, and France which are not only the major investor now but during pre-liberalization era also.

Table 1: Statement of FDI equity inflows (month-wise) during the financial year 2016-17

Financial Year 2016-17 (April-March)		Amount of FDI Equity Inflows (In Rs. Crore) (In US\$ mn)	
1	April,2016	22,345	3,362
2	May, 2016	13,271	1,983
3	June,2016	15,111	2,245
4	July,2016	27,430	4,081
5	August,2016	32,150	4,803
6	September,2016	34,366	5,149
7	October,2016	41,353	6,195
8	November,2016	31,631	4,677
9	December,2016	22,727	3,347
10	January,2017	27,067	3,976
11	February,2017	8,118	1,210
12	March, 2017	16,126	2,448
2016-17 (form April, 2016 to March, 2017) #		291,696	43,478
2015-16 (form April, 2015 to March, 2016) #		262,322	40,001
%age growth over last year		(+11%	(+9%

Source: Department of Industrial Policy & Promotion, Ministry of Commerce and Industry

**Fig 1:** Statement of FDI equity inflows (month-wise) during the financial year 2016-17:

The above table (1) and figure(1) shows that Foreign Direct Investment in India during 2016-17 is reasonably high in the month of October with an investment of Rs.41, 353 Crores and it was achieved due to the reforms in FDI framework

carried out by Central Government. While comparing the FDI inflows in our country with financial year 2015-16 to 2016-17 it was relatively high with 11% in terms of Indian rupees.

Table 2: Share of Top Investing Countries FDI equity inflows during the financial year 2016-17: Amount Rupees in Crores (US\$ in Million)

Rank	Country	2016-17 (April-March) Rs.	2016-17 (April-March) US \$	% of total Inflows (in terms of US \$)
1	Mauritius	105,587	15,728	34%
2	Singapore	58,376	8,711	16%
3	Japan	31,588	4,709	8%
4	U.K.	9,953	1,483	7%
5	Netherlands	22,633	3,367	6%
6	U.S.A.	15,957	2,379	6%
7	Germany	7,175	1,069	3%
8	Cyprus	4,050	604	3%
9	France	4,112	614	2%
10	UAE	4,539	675	1%
Total FDI Inflows from all Countries *		291,696	43,478	

Source: Department of Industrial Policy & Promotion, Ministry of Commerce and Industry

*Includes inflows under NRI Schemes of RBI.

Note: (i) %age worked out in US\$ terms & FDI inflows received through FIPB/SIA+ RBI's Automatic Route + acquisition of existing shares only.

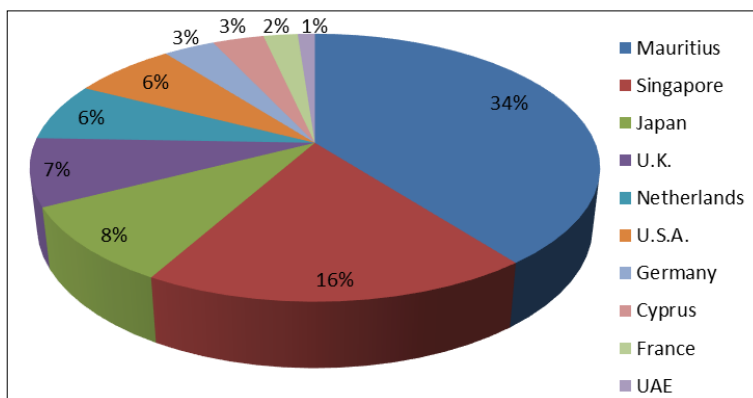


Fig 2: Share Of Top Investing Countries FDI equity inflows during the financial year 2016-17

The above table (2) and Figure (2) shows that Mauritius is the largest investor in India during 2016-17. FDI inflows from Mauritius constitute about 34% of the total FDI in India and enjoying the top position on India’s FDI map from 1995. Then Singapore is the second largest investing country in India. FDI

inflow from Mauritius is more than double then that from the US. The other major countries are Japan with a relative share of 8% followed by UK, Netherlands, USA, Germany, Cyprus, France, and UAE.

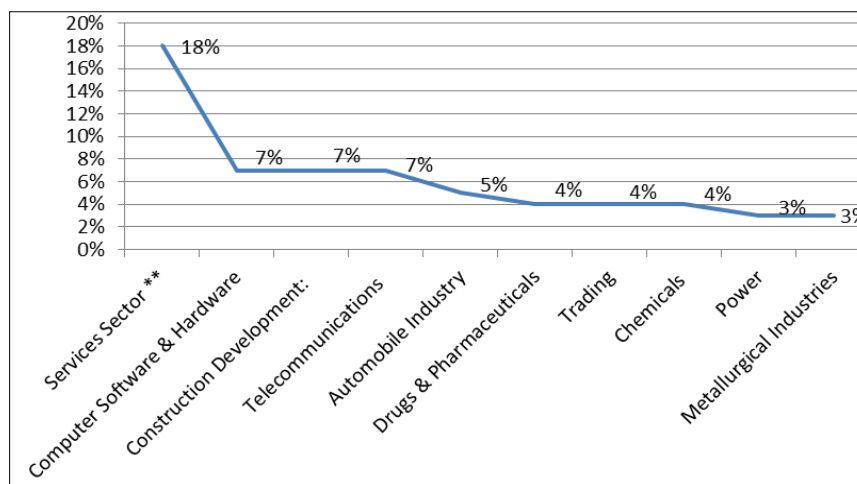
Table 3: Statement on Sector-Wise FDI inflows during the financial year 2016-17: Amount in Rs. Crores (US\$ in Million)

Rank	Sector	2016-17 (April-March) Rs.	2016-17 (April-March) US \$	% of total Inflows (in terms of US \$)
1	Services Sector **	58,214	8,684	18%
2	Computer Software & Hardware	24,605	3,652	7 %
3	Construction Development: Townships, Housing, Built-Up Infrastructure	703	105	7%
4	Telecommunications (radio paging, cellular mobile, basic telephone services)	37,435	5,564	7%
5	Automobile Industry	10,824	1,609	5 %
6	Drugs & Pharmaceuticals	5,723	857	4%
7	Trading	15,721	2,338	4%
8	Chemicals (Other Than Fertilizers)	9,397	1,393	4%
9	Power	7,473	1,113	3%
10	Metallurgical Industries	9,647	1,440	3%
Total FDI Inflows from all Countries		291,696	43,478	

Source: Department of Industrial Policy & Promotion, Ministry of Commerce and Industry

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

(ii) FDI sectoral data has been revalidated / reconciled in line with the RBI, which reflects minor changes in the FDI figures (increase/decrease) as compared to the earlier published sectoral data.



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

Fig 3: Sectors attracting highest FDI equity inflows during the financial year 2016-17:

The above table (3) and figure (3) shows that Service Sector has attracted largest FDI during 2016-17. FDI inflows into service sectors constitute about 8% of the total FDI in India and enjoying the top position on India's FDI map. Computer Software and hardware occupied the second position with the share of about 7% and followed by other major sectors Construction Development, Telecommunications, Automobile Industry, Drugs & Pharmaceuticals, Trading, Chemicals (Other Than Fertilizers), Power, Metallurgical Industries.

5. Conclusion

FDI in India has a significant role in the economic growth and development of India. FDI in India to various sectors can attain sustained economic growth and development through creation of jobs, expansion of existing manufacturing industries. This leads to an increase in income and more buying power to the people, which in turn leads to an economic boost. As per the study, the inflow of FDI in service sectors and construction and development sector during the year 2016- 2017 attained substantial economic growth and development through creation of jobs in India. Computer, Software & Hardware and Drugs & Pharmaceuticals sector were the other sectors to which attention was shown by Foreign Direct Investors (FDI). So, the future of India lies in FDI & the government must proceed in that direction if it wants to make the Indian economy a developed economy.

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