

## FDI Inflows in India: An Overview

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### ABSTRACT

The present study analysed FDI inflows in India over the last 23 years and found that the trend of FDI inflows in India in the recent period is similar to the global economy. It has been found that FDI inflows have shown increasing trend particularly after 2012-13 since CAGR of FDI inflows has been computed as 13.2 percent. FDI inflows from 2013 to 2016 have indicated tremendous growth subsequent to sharp fall in 2012-13. However, India's FDI equity inflows have declined over the last few years and have plummeted to the lowest level in 2018-19 mainly on account of decline in FDI inflows in telecom, power and pharmaceuticals sectors. Mauritius and Singapore stood the top two countries with highest contribution to FDI inflows in India comprising of 61 percent of the total FDI inflows among the top ten countries investing in India over the last 23 years. Despite the fact that India is still enjoying the status of the favoured FDI destination, total inflows to India in 2022 have shown a drastic fall over the previous year (-16.3%) which could be attributed to the waves of recent global recession, geo-political tensions following Russia-Ukraine invasion and subsequent implementation of global protectionist policies by nations which are victim of sanctions imposed by US and even by NATO alliance to threaten Russia so that Russia stops war against Ukraine.

**Keywords:** Foreign Direct Investment, FDI Equity Inflows, Major Sectors.

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### I. INTRODUCTION

The positive vibes of resilient growth prospects for India combined with stable benchmark such as foreign exchange reserves. India received huge amount of foreign portfolio investment (FPI) inflows of 9.5 billion USD, predominantly comprising of equity inflows, in December 2023. In spite of tremendous FPI inflows to India in 2023, foreign direct investment (FDI) inflows to India have plummeted by 24% year-on-year approaching to \$ 20.5 billion in the first half of FY 2024 due to geopolitical tensions such as Russia-Ukraine war and global recession. Besides the elevated growth of FPI, the economy should constantly monitor foreign direct investment (FDI) and emphasise on attracting more and more FDI since it provides stability to the recipient country. Foreign investments in the form of FDI are considered as more safe investment in comparison to the FPI which is often taken as "hot money" and "fair weather friends" that can withdraw from the recipient nation overnight if situation of economic turmoil hinges upon the host country. Since India managed to have had more FDI inflows in contrast to FPI, Southeast Asian crisis of 1997 could not adversely impact India. However, the countries with more FPI than FDI became the victim of the crisis and their fate was further aggravated since these economies were predominantly export-oriented with weak domestic market.

FDI is essential to accomplish the projects undertaken by a nation and is based on active interest of the investor that contributes towards capital formation and GDP growth of the host nation. Thus, continuous focus on FDI to India is the prerequisite.

### II. REVIEW OF LITERATURE

It is pertinent to present a brief review of literature to have an outlook of the FDI determinants and its impact on the host country.

Daniels (1975) quoted that foreign investment can be of two types; foreign direct investment and foreign portfolio investment. Foreign direct investment channel seems lucrative option for the less developed countries as it does not simply provides capital rather scarce managerial, technical and marketing skills are an added advantage which could not be available by means of foreign trade aid.

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Kumar (2001) scrutinised the impact of liberalisation upon size of FDI inflows to India. The author found that undoubtedly magnitude of inflows has shown tremendous growth but still this quantum is quite marginal compared to vast potential of the economy.

Chakraborty and Nunnenkamp (2006) observed economic implications of FDI on India considering industry – specific FDI applying Granger causality and panel co-integration tests. Study observed that FDI stocks and output are mutually reinforcing in the manufacturing sector while no causal relationship can be detected in the primary sector. Study found only transitory effects of FDI on output in the service sector which attracted the huge amount of FDI inflows in the post – reform era. Such FDI and Growth relationships suggest that to reap up the benefits of FDI, FDI norms should be further relaxed to attract more FDI.

Hu (2006) analysed factors attracting FDI inflows in India and found that factors such as economic growth, domestic demand, currency stability and economical labour force as compared to other countries are making FDI inflows to India more attractive. The study concluded that India is more favourable destination than other countries in attracting FDI inflows as far as availability and skill of labour force is concerned.

Goswamia and Saikiab (2012) explored FDI particularly with reference to exports from India especially considering north-east region and found strong association between FDI and exports over the period from 1991 to 2011.

Patil and Kadam (2014) analysed impact of FDI on Indian economy and observed the significance of FDI inflows for India and contribution of FDI inflows towards economic development from 2000-2010.

The above mentioned studies highlight the relevance of FDI for recipient country. It has been observed in the recent past foreign direct investment inflows in India have been on decline. Thus, it is pertinent to analyse the trends of FDI inflows in India, country-wise contribution of FDI inflows and subsequently sector-wise distribution in India.

### **OBJECTIVES OF THE STUDY**

- (i) To analyse the trajectory of FDI inflows in India.
- (ii) To assess the country-wise contribution inflows of FDI into India.
- (iii) To analyse sector-wise distribution of FDI inflows in India.

### **DATA DESCRIPTION**

For assessing the trajectory as well as country-wise and sector-wise distribution of Foreign direct investments (FDI) inflows, India's total FDI Inflows spanning 2000-01 to 2022-23 has been considered on annual basis. The data is in USD Million and has been retrieved from official websites of Department for Promotion of Industry and Internal Trade (DPIIT) and Reserve Bank of India (RBI).

## **III. ANALYSIS AND DISCUSSION**

Table 1 portrays cumulative FDI inflows in India from 2000-01 to 2022-23. From the year 2000 onwards, Government of India has made several amendments to FDI policies as the nation is striving to become the most favoured destination to boost its FDI inflows. The FDI into India has increased tremendously subsequent to 1991 reforms of liberalisation. Despite the liberalising reforms, India has experienced an uneven trend in the FDI inflows over the last decade and even more severe changes from 2000-01 to 2022-23. Moreover, India has observed sudden decrease in the percentage of FDI inflows as compared to earlier years of reforms, particularly from 2001-02 to 2003-04 on account of uncertainties` due to attack on World Trade Centre and Indian Parliament by the terrorists in 2001 and then during 2008-09 to 2012-13 due to global slowdown as a consequence of the impact of US Subprime Crisis 2008 and Euro Crisis 2012-13. As a result of these events, the investor confidence became low all around the globe.

However, India has also witnessed sudden as well as gradual surge in the percentage of FDI inflows as compared to the previous years on various occasions. For instance, during 2006-07, FDI inflows elevated sharply leading to a rise of 110.4 percent in the FDI inflows following positive amendments in the FDI policy in 2006 making FDI procedure more easy, hike of the capital limits to 100 percent and exemption from restrictions. During 2007-08, the Indian government had organized events like Destination India and also the DIPP (Department of Industrial Policy Promotion) website was made user-friendly with an added feature of providing answers to investment-related queries. Having witnessed an extended period coinciding with the global economic crisis impact from 2008-09 to 2012-13, the FDI inflows in India declined sharply and eventually regained earlier position in the year of 2014 subsequent to the launching of new government policies, slogans such as Make in India, Start Up India, Skill India, development of smart cities led to improvement in doing business with ease indicators in the country.

Table 1. Total Year-wise Foreign Direct Investment (FDI) Inflows into India (In USD Million)

Years	Foreign Direct Investment (FDI)							
	Equity					FDI inflows		
	FIPB Route/RBI Automatic/Acquisition Route	Equity Capital of unincorporated bodies	Re-invested Earnings	Other Capital	Total Equity FDI Inflows	Percentage change over previous year	Total FDI Inflows	Percentage change over previous year
2000-01	2339	61	1350	279	1411	-	4029	-
2001-02	3904	191	1645	390	1836	(+)30.1%	6130	(+)52.1%
2002-03	2574	190	1833	438	2023	(+)10.1%	5035	(-)17.8%
2003-04	2197	32	1460	633	1492	(-)26.2%	4322	(-)14.1%
2004-05	3250	528	1904	369	2432	(+)63%	6051	(+)40%
2005-06	5540	435	2760	226	3195	(+)31.3%	8961	(+)48%
2006-07	15585	896	5828	517	6724	(+)110.4%	22,826	(+)155%
2007-08	24573	2291	7679	300	9970	(+)48.2%	34,843	(+)52.6%
2008-09	31364	702	9030	777	9732	(-)2.3%	41,873	(+)20.1%
2009-10	25606	1540	8668	1931	10208	(+)4.8%	37,745	(-)9.8%
2010-11	21376	874	11939	658	12813	(+)25.5%	34,847	(-)7.6%
2011-12	34833	1022	8206	2495	9228	(-)27.9%	46,556	(+)33.6%
2012-13	21825	1059	9880	1534	10939	(+)18.5%	34,298	(-)26.3%
2013-14	24299	975	8978	1794	9953	(-)9%	36,046	(+)5.9%
2014-15	30933	978	9988	3249	10966	(+)10.1%	45,148	(+)25.2%
2015-16	40001	1111	10413	4034	11524	(+)5%	55,559	(+)23%
2016-17	43478	1223	12343	3176	13566	(+)17.7%	60,220	(+)8.3%
2017-18	44857	664	12542	2911	13206	(-)2.6%	60,974	(+)1.2%
2018-19	44,366	689	13,672	3274	14361	(+)8.7%	62,001	(+)1.6%
2019-20	49976	1757	14175	8482	15932	(+)10.9%	74,390	(+)19.9%
2020-21	59636	1452	16935	3950	18387	(+)15.4%	81,973	(+)10.1%
2021-22	58773	910	19347	5805	20257	(+)10.1%	84,835	(+)3.4%
2022-23	46034	1390	19354	4192	20744	(+)2.4%	70,970	(-)16.3%
<b>Cumulative Total (from April, 2000 to March, 2023)</b>	<b>637319</b>	<b>20970</b>	<b>209929</b>	<b>51414</b>	<b>230899</b>	<b>-</b>	<b>919632</b>	<b>-</b>
<b>Compound Annual Growth Rate (CAGR)</b>						<b>(+)13.2%</b>		

Source: RBI Statistics

Moreover, Government of India came up with FDI policy in 2017 which emphasised removal of various bureaucratic procedures and thus making FDI proposals more rational and efficient under government approval route. Despite these positive initiatives of GOI, India's FDI equity inflows have shown a sharp fall over the last few years, particularly in 2017-18 mainly on account of fall in foreign investments in sectors such as telecom, power and pharmaceuticals sectors and due to sluggish growth of Indian economy following drastic changes in its economic structure in the form of demonetization, implementation of GST and ever mounting NPA burden. But at the same time efforts of the government in reducing FDI procedural requirements and rules could not be denied.

In nutshell, it has been noticed that trends of FDI inflows in India as observed in the recent years are commensurate with the global trends.

Chart representing trends of Total FDI Inflows in India spanning April, 2000 to March, 2023

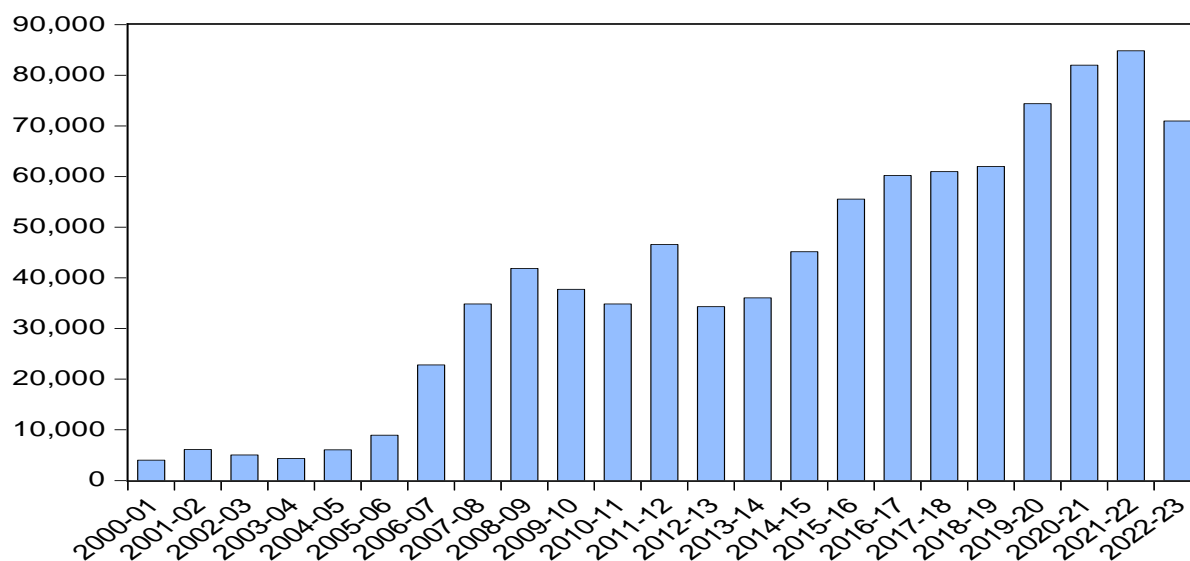


Table 2. Share of Top Investing Countries' FDI Equity Inflows (In USD Million)

Ranks	Top Country	Cumulative Amount of FDI (April, 2000 to March, 2023)	Percentage of Total Inflows
1	Mauritius	1,67,015.53	32%
2	Singapore	1,53,393.97	29.4%
3	U.S.A.	62,387.64	12%
4	Netherland	45,706.47	8.7%
5	Japan	40,918.06	7.8%
6	United Kingdom	34,527.01	6.6%
7	UAE	16,678.67	3.2%
Total FDI Inflows from All Countries		5,20,627.35	-

Source: DPIIT, Government of India

Table 2 presents that Mauritius is the top most FDI investor contributing 32% of total FDI inflows to India followed by Singapore (29.4%).

Table 3. Major Sectors Attracting Highest FDI Equity Inflows

Ranks	Percentage Out of Total FDI Equity Inflow (Major Sectors), 2022-23 (April – March)
1	Services Sector 16%
2	Computer Software & Hardware 15%
3	Trading 6%
4	Telecommunications 6%
5	Automobile Industry 5%
6	Construction (Infrastructure) Activities 5%
7	Construction Development (Townships, housing, built-up infrastructure and construction-development projects) 4%
8	Chemicals (Other than Fertilizers) 3%
9	Drugs & Pharmaceuticals 3%
10	Metallurgical Industries 3%

Source: DPIIT, Government of India

Further table 3 exhibits that among the top ten sectors attracting the most FDI inflows the service sector of India received the highest inflows 16 %, followed by Computer Hardware & Software 15% and trading sector with 6% and telecommunication 6%. It clearly brings out that among all the sectors the service sector has appeared as the fastest growing sector of Indian economy and its contribution towards GDP is more than 60%.

#### IV. Conclusion and Policy implications

There trend of FDI inflows in India as observed in the recent period is similar to the global economy. It has been found that FDI inflows have shown increasing trend particularly after 2012-13 since CAGR of FDI inflows has been computed as 13.2 percent.

FDI inflows from 2013 to 2016 have indicated tremendous growth subsequent to sharp fall in 2012-13. So, India managed to attract and sustain sizable amount of FDI during this period. However, India's FDI equity inflows have declined over the last few years and has tanked to the lowest level in 2018-19 mainly on account of decline in FDI inflows in telecom, power and pharmaceuticals sectors.

Mauritius and Singapore stood the top two countries with highest contribution to FDI inflows in India comprising of 61 percent of the total FDI inflows among the top ten countries investing in India over the last 23 years.

Among the top ten sectors attracting the most FDI inflows, the service sector got highest FDI inflows, that is, 16 %, followed by Computer Hardware & Software 15% and trading sector with 6% and telecommunication 6%. It clearly brings out that among all the sectors the service sector has appeared as the fastest growing sector of Indian economy and its contribution towards GDP is more than 60%. Despite the fact that India has managed to attract unprecedented amount of FDI, since the initiation of reform process in 1991, nation is still lagging behind many other developing nations in terms of magnitude of FDI inflows. It is much needed that India should further liberalise the foreign direct investment policies. Simultaneously, it is high time to explore other sectors for the entry of foreign investors via automatic route and sectors besides service sector should be given due thought to harness more and more FDI inflows. Undoubtedly India is still enjoying the status of the favoured FDI destination, total inflows to India in 2022 have shown a drastic fall over the previous year (-16.3%) which could be attributed to the waves of recent global recession, geo-political tensions following Russia-Ukraine invasion and subsequent implementation of global protectionist policies by nations which are victim of sanctions imposed by US and even by NATO alliance to threaten Russia so that Russia stops war against Ukraine.

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