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An Assessment of Trends and Patterns of FDI Inflows in India, 1991-2021

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Abstract: *The Foreign Direct Investment (FDI) is cogitated as an imperative factor contributing to economic growth because it brings capital for investment as well as new technologies from abroad to expand the production capabilities of the economy. That is why, countries seek to increase FDI inflows for their economies and in order to do that they change their foreign investment policies on regular basis. The GoI (Government of India) also adopted the same pattern. The Foreign Exchange Management Act (FEMA) of 1999 and the Foreign Direct Investment (FDI) policy that was issued by the Government of India both have provisions that govern foreign investments in India. Therefore, the main concern of this paper is to critically analyse the trends and patterns of FDI inflows in India covering the time period of 1991 to 2021. To do so, the work will use quantitative method of research and will be analytical in nature.*

Keywords: Foreign Direct Investment, India, FERA, FEMA, DIPP, Economic Development.

I. INTRODUCTION

Although different economists and organizations have defined Foreign Direct Investment differently, the definition given by OECD is the globally recognized one. OECD described FDI as "*a category of cross-border investment made by a resident entity in one economy (the direct investor) with the objective of establishing a lasting interest in an enterprise (the direct investment enterprise) that is resident in an economy other than that of the direct investor*" (Chalapati and Dhar, 2011).

Furthermore, while elaborating the features of FDI, OECD added, "*Direct investment relationships, by their very nature, may lead to long-term and steady financing and technological transfers with the objective of maximising production and the earnings of the MNE [multinational enterprise] over time* (OECD, 2008)."

It means there exist a proportional linking between the FDI inflows and economic development. Furthermore, FDI improves an economies' trade balance, labour skills and values, human and natural resource utilisation, industry competitiveness, export markets, open the doors to transnational quality goods and services, and create employment possibilities. And because of these pretexts, FDI is an imperative economic development tool, especially for developing and emerging economies (Ghosh, 2005).

That is why, countries seek to increase FDI inflows for their economies and in order to do that they change their foreign investment policies on regular basis. The GoI (Government of India) also adopted the same pattern. Therefore, the main concern of this paper is to critically analyse the trends and patterns of FDI inflows in India covering the time period of 1991 to 2021.

II. HISTORICAL BACKGROUND

The idea of foreign direct investment (FDI) is not new to India; in fact, it is generally accepted that FDI began in India between the years 1850 and 1855, when the ***East India Company*** erected the nation's first "*cotton mill, jute mill, and railway lines*". Initially, there were no limitations placed on the form or type of foreign direct investment that might be brought into India; despite this, the United Kingdom was the only country that expressed interest in making an investment. Even though Japanese firms entered the Indian market and increased their trade with India after the 2nd World War, the United Kingdom continued to be the country with the most investment in India. The only source of industrial activity in pre-independence India was British businesses. However, these firms damaged the Indian economy

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by directing investment specifically in those industries that were favourable to their own economic and business objectives. As a result, in the years immediately following its independence, India displayed a hostile attitude toward capital from other countries since it was not in the mood to cede its recently won freedom.

Indian Government's stand towards FDI, 1947-1991

The first three decades after independence were marked by an attitude of circumspection concerning investments made by outside parties. Only certain areas of industrial activity were open to foreign direct investment (FDI) so that the country could more easily acquire access to the capital equipment and technology necessary for rapid industrialisation. In the 1980s, a few of the limits that had been imposed on the FDI policy were relaxed, and various incentives were provided to multinational corporations in order to entice them to invest in India (Kumar, 1998).

India's FDI Policy, 1991-2021

In the initial years of the 1990s, the Indian economy was hit by a severe bop crisis as a result of political instability as well as economic concerns such as high inflation, a budget deficit, and an outflow of foreign cash by NRIs. The sudden commencement of the "***Gulf War in January 1991***", which resulted in a spike in the worth of petroleum as well as a considerable cessation of transmittals from Indian labours residing in Gulf countries, further exacerbated the situation, which had already been deteriorating. On the international market, India's credit rating went down, and the country was dangerously close to being labelled a defaulter with regards to its obligations regarding its external payments. At this crucial juncture, the then-Finance Minister Dr. Man Mohan Singh, by the backing of the International Monetary Fund and the World Bank, launched a programme in June 1991 to achieve macroeconomic stabilisation and structural reform. As a component of this initiative, on July 1, 1991, an announcement was made regarding a "***New Industrial Policy (NIP)***", which placed an emphasis on the comprehensive liberalisation and integration of India with the global economy. The national industrial policy (NIP) brought about significant shifts in the country's trade, investment, and industrial policy regimes. It provided a significant impetus for Foreign Direct Investment (FDI) in India by permitting foreign investors freedom of location, choice of technology, repatriation of cash, and dividends.

In the past two decades, one of the most significant shifts that has taken place is that governments have become much more favourable toward foreign direct investment (FDI), and have liberalised their FDI rule although at the time, speed and intensity differed from country to country. This has been one of the most significant changes that has taken place. Over the course of the past 15 years, countries have come to view foreign direct investment (FDI) as a factor that can contribute to their strategic planning due to the provision of technology and capital by FDI. At the regional and national levels, policy initiatives have become more liberal, but at the multilateral level, there is no standard set. There is a growing trend among some home countries to facilitate foreign direct investment (FDI) into developing countries through the use of guarantee funds, matchmaking, and other methods.

III. DATA ANALYSIS AND INTERPRETATION

An examination of the patterns of foreign direct investment (FDI) inflows over the last 2 decades demonstrates that there was a consistent FDI inflow into the country till 2004, but that there was an incredibly rapid rise in the level of FDI inflows since 2005. The success of the Indian government in transitioning to a market-based economy has coincided with an increase in foreign direct investment (FDI) in the country. India has seen an increase in the number of transnational corporations that have relocated their operations from their domestic country as a result of the country's policy of opening its market to international trade. The growth of FDI inflows has been significantly higher in the past 6 fiscal years. As per the standards that are followed internationally for the best practises, the total FDI inflows in 2000-01 were 4,029 US Million Dollars, and they are expected to reach 786,352 US Million Dollars by June 2021. According to the Foreign Direct Investment Data Base maintained by the "***Department of Industrial Policy and Promotion (DIPP)***", the total amount of FDI flows in 2000-01 was 2,339 US Million Dollars. This number is expected to rise to 59,636 US Million Dollars in 2020-21. There will have been a total of 550,080 million US dollars' worth of FDI invested between April 2000 and June 2021 (*for details see Table 1 and Table 2*).

Table 1. Financial Year-Wise FDI Inflows in India (Amount US Million Dollar), 1991-2001

Year	Rs. Crores	Growth Rate (%)	Amount (US $)	Growth Rate (%)
1991-92	409	-	167	-

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1992-93	1,094	167.47	393	135.32
1993-94	2,018	84.46	654	66.41
1994-95	4,312	113.68	1,378	110.09
1995-96	6,916	60.39	2,141	55.82
1996-97	9,654	39.59	2,770	29.38
1997-98	13,548	40.34	3,682	32.92
1998-99	12,343	-8.89	3,083	-16.27
1999-2000	10,311	-16.64	2,439	-20.89
2000-2001	12,645	22.64	2,908	19.23

Source: DIPP website, [Online: web] Accessed on 31 May 2022, URL: www.dipp.nic.in/fdi/statistics/India

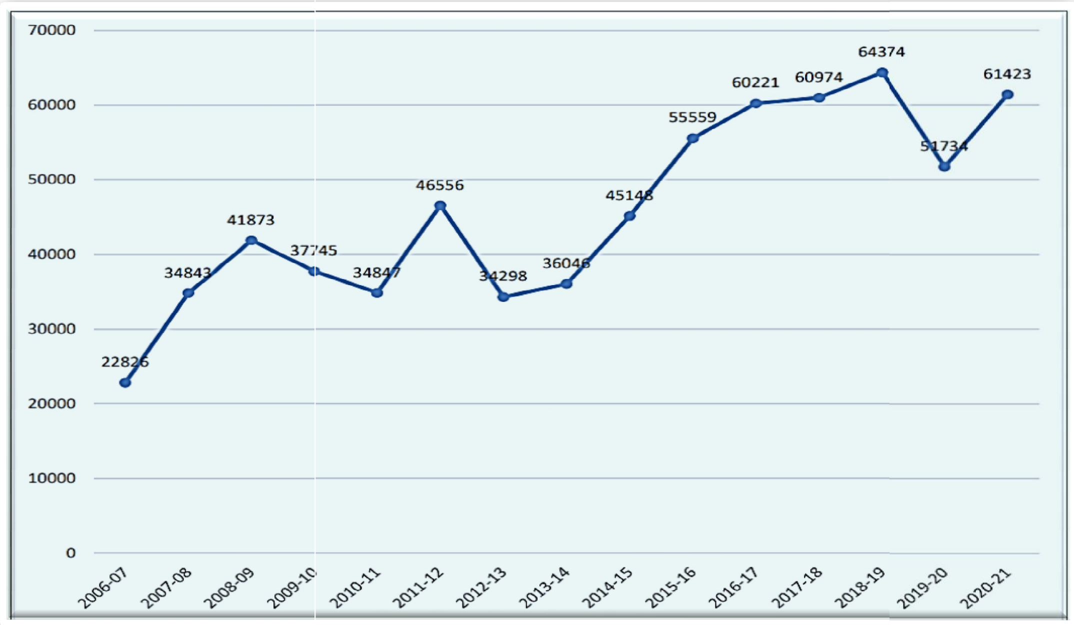
Table 2. Financial Year-Wise FDI Inflows in India (Amount US Million Dollar), 2001-2021

S. No.	Financial Year(April – March)	FDI						Investment by FIIS IIF (net)
		Equity				FDI Inflows in India		
		FIPB Route/ RBI'S Automatic & Acquisition Route	Equity Capital (Unincorporated Bodies)	Re- Invested Earnings	Other Capital	FDI Flows (Total)	% age Growth over previous year (in US Dollar terms)	
FINANCIAL YEAR 2000-01 to 2021-22 (Amount US $ Million)								
1.	2000-01	2,339	61	1,350	279	4,029	-	1,847
2.	2001-02	3,904	191	1,645	390	6,130	(+) 52%	1,505
3.	2002-03	2,574	190	1,833	438	5,035	(-) 18%	377
4.	2003-04	2,197	32	1,460	633	4,322	(-) 14%	10,918
5.	2004-05	3,250	528	1,904	369	6,051	(+) 40%	8,686
6.	2005-06	5,540	435	2,760	226	8,961	(+) 48%	9,926
7.	2006-07	15,585	896	5,828	517	22,826	(+)155%	3,225
8.	2007-08	24,573	2,291	7,679	300	34,843	(+) 53%	20,328
9.	2008-09	31,364	702	9,030	777	41,873	(+) 20%	(-) 15,017
10.	2009-10	25,606	1,540	8,668	1,931	37,745	(-) 10%	29,048
11.	2010-11	21,376	874	11,939	658	34,847	(-) 8%	29,422
12.	2011-12	34,833	1,022	8,206	2,495	46,556	(+) 34%	16,812
13.	2012-13	21,825	1,059	9,880	1,534	34,298	(-) 26%	27,582
14.	2013-14	24,299	975	8,978	1,794	36,046	(+) 5%	5,009
15.	2014-15	30,934	952	8,983	4,008	44,877	(+)24%	40,923
16.	2015-16	40,001	1,111	10,413	4,034	55,539	(+) 23%	(-) 4016
17.	2016-17	43,478	1,223	12,343	3,176	60,220	(+) 8%	7,735
18.	2017-18	44,857	664	12,542	2,911	60,974	(+)1%	22,165
19.	2018-19	44,366	689	13,672	3,274	62,001	(+)2%	(-) 2,225
20.	2019-20 (P)	49,977	1,757	14,175	8,482	74,390	(+)20%	552
21.	2020-21 (P)	59,636	1,452	16,395	3,950	81,973	(+)10%	38,725
22.	2021-22 (P) (up to June, 2021)	17,567	335	3,908	715	22,525	-	159

Cumulative Total (From April, 2000 to June, 2021)	**550,080**	**19,005**	**175,136**	**42,132**	**786,352**	**-**	**253,689**

Source: RBI Bulletin (2022), Quarterly Fact Sheet, Fact Sheet on Foreign Direct Investment (FDI) From April, 2000 to June, 2021, [Online: web] Accessed on 31 May 2022, URL: http://dpiit.gov.in/sites/default/files/FDI_Factsheet_June2021.pdf

Figure1: Diagrammatic Presentation of Table 1



Source: RBI's Monthly Bulletin (2022).

IV. CONCLUSION

Thus, to sum up, the above analysis demonstrates that during the last two decades demonstrates that, while there was a consistent FDI inflow into the country till 2004, there has been an accelerated rise in the amount of FDI that has been invested in the country starting in 2005. The Indian government's success in transforming the country's restricted economy into a market-based system has coincided with an increase in FDI. India has witnessed a spike in the number of transnational corporations that have relocated their operations from their original country as a result of the country's policy of opening its market to international trade. Table 1 and Table 2 depicts that since 1991, there has been a significant rise in the amount of FDI that has been brought in. Since after adopting liberalization policy, the government of India has taken a number of steps to improve the country's economy and increase the amount of foreign direct investment (FDI). As a direct consequence of this, India has received a total of FDI inflows amounting to 409,122,919 crores between the years 1991 and 2008-2009.

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