

# Foreign Direct Investment in India: Emerging Trends and Patterns

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### Abstract

*This paper examines the trends in foreign direct investment (FDI) in India during 1980-2018 and the emerging patterns of the FDI inflows in the country during the last two decades (i.e., 2000 - 2019). Our analysis, based on the secondary data collected from UNCTAD and DPIIT, reveals that the ongoing FDI liberalization measures started in India since 1991 have resulted in a dramatic upsurge in the FDI inflows as well as a stock of FDI in the country. The share of India in the global FDI inflows has increased in the post-liberalization period. Still, there was no perceptible increase in India's share in the global FDI stock during this period. Detailed examination of the patterns of the FDI inflows in India revealed that the equity capital had been the largest component of the FDI in India. Moreover, its share in the total FDI inflows has been increasing during 2000 and 2019. Mauritius and Singapore have been the two important sources of FDI inflows into India, contributing more than half of the FDI flows during the last two decades; this was mainly because these countries were considered as tax heavens for investors from other countries for routing their investments to India. Sector-wise distribution of FDI in India during the last two decades of the post-liberalization period (i.e., during 2000 - 2019) has shown that the service sector has emerged the largest recipient of FDI replacing the manufacturing sector. Our analysis has clearly shown the impact of liberalization on enhancing the FDI flows as well as stock in India and also in changing patterns of FDI distribution in the country.*

**Keywords:** Compound Annual Growth Rate, Equity Capital, FDI Flows, FDI Stock, Foreign Direct Investment, Multinational Enterprises, Re-invested Earning.

**JEL Classification:** F21

### Introduction

Foreign direct investment (FDI) is the most important vehicle through which the activities of the multinational enterprises (MNEs) are spread across the world. Many countries across the world compete to attract FDI by liberalizing their foreign investment policies. India, after following four decades of restrictive policies towards, started liberalizing its policies towards FDI since 1991. This was aimed at attracting more FDI into the country not only for supplementing the domestic capital formation efforts, but also to bring advanced technology, managerial, and marketing skills as a package.

The ongoing foreign investment liberalization commenced in India in 1991, as part of its drastic structural reform package, has reflected in drastic changes in the foreign investment inflows into the country. There are studies in the literature on various aspects of FDI in India such as the trends, patterns and issues [Kidron, M. (1965), Ganesh, S. (1997), Kumar, N. (1998, 2005), and Nagaraj (2003)], its determinants [Kaur & Sharma (2013) and Archana et al. (2007)] and its relation with economic in the country [Chakraborty & Basu (2002)]. Since the trends and patterns of FDI are a dynamic phenomenon in an economy, a rigorous analysis of FDI with a long time series data set incorporating its recent developments will shed more light on its up-to-date evolving picture, and this paper aims to do this for India.

This paper attempts to portray the trends in foreign direct investment in India from 1980 – 2018; it also tries to expose the emerging patterns of the FDI inflows in the country during the last two decades. The remainder of the paper is organized in four sections, the second section describes the data sources and methods used for the analysis of the data, the third section illustrates the trends in the inward FDI flows as well as the FDI stock in India, the fourth section shows the emerging patterns of FDI inflows into the country, and the last section presents the concluding remarks.

**Data and Methods**

The analysis in this paper is based on secondary data obtained from two important sources viz., (i) United Nations Conference on Trade and Development (UNCTAD) and (ii) Department for Promotion of Industry and Internal Trade, Ministry of Commerce and Industry Government of India.

The analysis of the data has been done using tables, line graphs, and bar charts, simple growth rates, and compound growth rates. Compound annual growth rates for (m+1) periods have been estimated by using the following model:

$$\ln Y_t = \alpha_0 + \beta_0 t + \sum_{i=1}^m \alpha_i D_i + \sum_{i=1}^m \beta_i D_i t + u_t$$

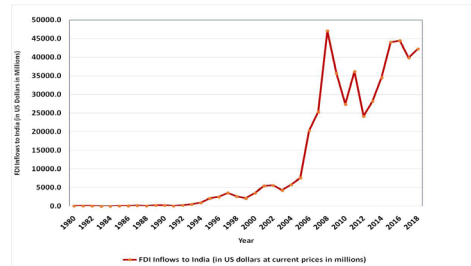
Where  $\ln Y_t$  is the natural logarithm of the variable of our interest (say, FDI in our case),  $D_i$  is a dummy variable which takes the values ‘1’ for the observations belonging to the sub-period of our interest and ‘0’ otherwise, ‘t’ represents time, which takes values 1, 2, 3, etc. and  $u_t$  is the usual stochastic error term. The compound annual growth rate (r) of Y in percentage term can be easily obtained from the estimated  $\beta$  coefficients through appropriate arithmetic operations.

The study primarily addresses two research questions: (i) whether the liberalization of FDI policy regime in India has resulted in accelerating the FDI inflows into the country and (ii) whether the pattern of FDI distribution has undergone any drastic changes in the second phase of liberation. The study posits two associated hypotheses: (a) liberalization of FDI policies in India has accelerated the FDI

inflows into the country; and (b) the pattern of FDI distribution in India has undergone drastic changes in the second phase of liberation.

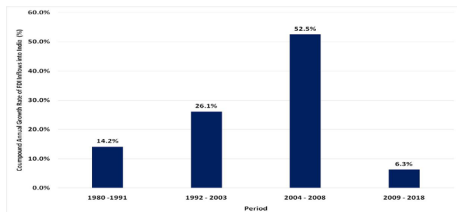
**Trends in the Foreign Direct Investment Inflows into India (1980 – 2018)**

The trends in FDI inflows into India during the last four decades can be visualized from Figure 1. The FDI inflows into the country were negligible and almost stagnant until the beginning of the 1990s. The restrictive inward-looking policies followed till the early nineties made India one of the less attractive FDI destinations in the world, which in turn, have resulted in such a sluggish trend in the FDI inflows to the country during this period.



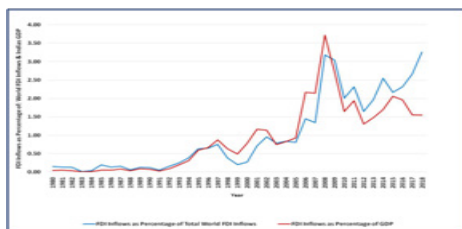
**Figure 1: Trends in the Foreign Direct Investment Inflows into India (1980 – 2018)**

However, the massive liberalization policies commenced in the early 1990s have resulted in a dramatic upsurge in the FDI inflows into the country. Figure 2 shows that the compound annual growth rate of FDI inflows into India has jumped from 14 percent during the pre-liberalization period (1980 – 1991) to 26 percent during the first decade of the post-liberalization phase (1992 – 2003), a drastic increase of 12 percentage points. There was a further spurt in the FDI inflows into India during the next four years (2004 – 2008), and the compound annual growth rate in the FDI inflows stood at its peak during this period, crossing 50 percent. However, the growth rate in the FDI inflows has drastically decelerated to around 6 percent during the next decade (2009 – 2018).

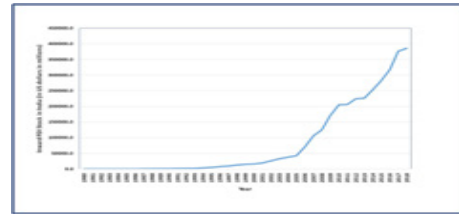


**Figure 2: Phase-wise Growth Rate of FDI Inflows into India (1980 – 2018)**

FDI inflows into India as a proportion of the world's FDI inflows and also as a proportion of the gross domestic product of the country have been computed, and the trend has been plotted in Figure 3. The figure clearly illustrates that the trends in FDI inflows into India as a proportion of the world FDI inflows and as a proportion of the GDP of the country were showing somewhat similar trends that we observed in Figure 1. To be more specific, the share of India in the world FDI inflows, albeit negligible, has increased during the post-liberalization period, even though India's share in the global FDI inflows has declined and became stagnant during the last few years. An almost similar trend could be observed in the case of FDI inflows into India as a proportion of the GDP of the country. It is striking to note that India, a country sharing 2.4 percent of the total world area and 17.7 percent of the world population, had been sharing less than one percent of the world FDI inflows till 2005. The average share of India in the world FDI inflows was around two percent in the subsequent 13 years. The significant increase in the FDI inflows into India in the post-liberalisation period, particularly the increase in the proportion of FDI inflows to the country in the world FDI inflows, clearly indicates the influence of the liberalization measures resulted in accelerating FDI inflows into India in the post-liberalization period.

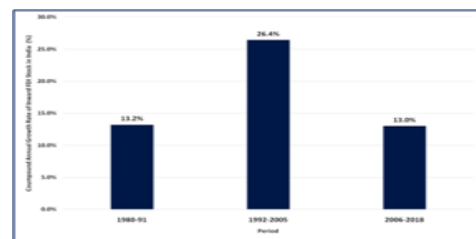


**Figure 3: Trends in the FDI Inflows into India as a Proportion of World FDI inflows and FDI Inflows as a Proportion of the GDP of the Country**



**Figure 4: Trends in the Inward FDI Stock in India (1980 -2018)**

The FDI stock in a country indicates the availability of foreign capital at a particular point in time to supplement the domestic capital formation of the country. Figure 4 reveals that the stock of FDI in India has been negligible in the pre-liberalization period. Still, it started picking up in the initial phase of the post-liberalization period (1992 – 2005), and it has steadily increased since 2006. The FDI stock in India has grown, on average, by 13 percent per annum in the pre-liberalization period. It has accelerated to around 26 percent in the first phase of the post-liberalisation period (1992 – 2005), but the compound annual growth rate in the FDI stock has bounced back to 13 percent again during the last second phase of the post-liberalisation period (2006 – 2018). Thus, it is evident that liberalization has resulted in enhancing the stock of FDI in India to supplement its domestic capital formation and technology efforts.

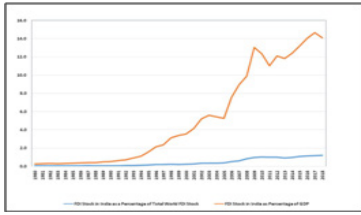


**Figure 5: Phase-wise Growth Rate of Inward FDI Stock in India (1980 – 2018)**

India's share in the global FDI stock has been negligible in both pre and post liberalization period. However, the share of India in the world FDI stock has gradually increased in the post-liberalisation period. But, India's share was less than one percent of the global FDI stock till 2009. India's share in the global FDI stock stood, on average, around one percent since 2010.

FDI stock as a proportion of the GDP of India was less than one percent in the pre-liberalization

period, but it has steadily increased to around 10 percent by 2008 and further to 14 percent by 2018.



**Figure 6: Trends in the FDI Stock in India as Percentage of the World FDI stock and as a Percentage of GDP of India (1980 – 2018)**

**Table 1: FDI Stock in India as a Percentage of Total World FDI Stock and as Percentage of India’s GDP**

Year	FDI Stock in India as a Percentage of Total World FDI Stock	FDI Stock in India as Percentage of GDP
1980	0.06	0.25
1985	0.08	0.34
1990	0.08	0.52
1995	0.16	1.55
2000	0.22	3.55
2005	0.38	5.25
2010	1.04	12.31
2015	1.07	13.17
2018	1.20	14.07

Source: UNCTAD Stat

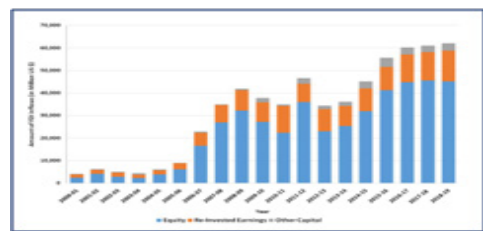
**Table 2: Components of FDI Inflows into India (Amount in USD Million)**

Sl. No.	Year	Equity		Re-invested Earnings		Other Capital		Total FDI Inflows
		Amount	Percentage of Total FDI Flows	Amount	Percentage of Total FDI Flows	Amount	Percentage of Total FDI Flows	
1	2000-01	2,400	59.6	1,350	33.5	279	6.9	4,029
2	2001-02	4,095	66.8	1,645	26.8	390	6.4	6,130
3	2002-03	2,764	54.9	1,833	36.4	438	8.7	5,035
4	2003-04	2,229	51.6	1,460	33.8	633	14.6	4,322
5	2004-05	3,778	62.4	1,904	31.5	369	6.1	6,051
6	2005-06	5,975	66.7	2,760	30.8	226	2.5	8,961
7	2006-07	16,481	72.2	5,828	25.5	517	2.3	22,826
8	2007-08	26,864	77.1	7,679	22.0	300	0.9	34,843
9	2008-09	32,066	76.6	9,030	21.6	777	1.9	41,873
10	2009-10	27,146	71.9	8,668	23.0	1,931	5.1	37,745
11	2010-11	22,250	63.9	11,939	34.3	658	1.9	34,847
12	2011-12	35,855	77.0	8,206	17.6	2,495	5.4	46,556

## The Emerging Patterns of Foreign Direct Investment Inflows in India

This section discusses the emerging patterns of FDI in India in terms of (i) components of FDI inflows, (ii) source-wise distribution of FDI in India, and (iii) sector-wise distribution of FDI in India during the last two decades.

The proportion of the three important components of foreign direct investment in India viz., (i) equity capital, (ii) reinvested earnings, and (iii) other capital, during the last 19 years is shown in Table 2 and Figure 7. It is perceptible that, as usual, the equity capital has been the largest component of FDI inflows into India; moreover, its share in the total FDI has increased from 60 percent in 2000-01 to 73 percent in 2018-19. The share of re-invested earning in the FDI has declined from 34 percent to 22 percent during the same period.



**Figure 7: Components of FDI Inflows into India (2000-01 to 2018-19)**

13	2012-13	22,884	66.7	9,880	28.8	1,534	4.5	34,298
14	2013-14	25,274	70.1	8,978	24.9	1,794	5.0	36,046
15	2014-15	31,911	70.7	9,988	22.1	3,249	7.2	45,148
16	2015-16	41,112	74.0	10,413	18.7	4,034	7.3	55,559
17	2016-17	44,701	74.2	12,343	20.5	3,176	5.3	60,220
18	2017-18 (P)	45,521	74.7	12,542	20.6	2,911	4.8	60,974
19	2018-19 (P)	45,055	72.7	13,672	22.1	3,274	5.3	62,001
Cumulative FDI Inflows (From 2000-01 to 2018-19)	4,38,361	72.2	1,40,118	23.1	28,985	4.8	6,07,464	

**Source:** Department for Promotion of Industry and Internal Trade, MoCI, GoI

Source-wise distribution of FDI can often indicate the nature and quality of FDI inflows into a country. Table 3 presents the share of the top 10 source countries in the FDI inflows to India; it can be observed from the table that Mauritius and Singapore were the two important sources of FDI inflows into India during the last two decades. Mauritius has contributed more than 31 percent of the total FDI inflows to India during the last two decades, followed

by Singapore (21 %). It was distantly followed by the other countries listed in the table. It is striking to note that Singapore has become India's largest source of FDI in 2018-19. These two countries have become the toppers as they are considered as tax-heavens, and FDI from other countries like the USA and UK were routed through countries to India to enjoy tax benefits.

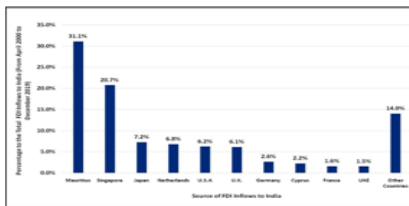
**Table 3: Share of Top Investing Countries in the FDI Inflows to India (Amount in USD Million)**

S. No.	Country of Origin	2017 - 18 (April – March)	2018 - 19 (April – March)	Total FDI Inflows (From April 2000 to December 2019)	Percentage of the total FDI inflows
1	Mauritius	15,941	8,084	1,41,924.93	31.1
2	Singapore	12,180	16,228	94,650.84	20.7
3	Japan	1,633	2,965	33,080.56	7.2
4	Netherlands	2,800	3,870	30,883.80	6.8
5	U.S.A	2,095	3,139	28,349.29	6.2
6	United Kingdom	847	1,351	27,936.96	6.1
7	Germany	1,124	886	12,073.77	2.6
8	Cyprus	417	296	10,107.26	2.2
9	France	511	406	7,102.38	1.6
10	UAE	1,050	898	6,916.19	1.5
11	Other Countries	6,259	6,243	63,885.01	14.0
	Total FDI Inflows from All Countries	44,857	44,366	4,56,910.99	100

**Source:** Department for Promotion of Industry and Internal Trade, MoCI, GoI

Sector-wise distribution of the FDI inflows into India during the last two decades reveals that the service sector has attracted the largest share of FDI in India, which was distantly followed by computer software & hardware, and telecommunications sectors (See Table 4). These three sectors have

attracted more than 35 percent of the total FDI inflows into India during the last two decades; the ten important sectors listed in the table has attracted more than 66 percent of the total FDI inflows in India during the last two decades.



**Figure 8: Share of Top Investing Countries in the FDI Inflows to India**

The sectoral distribution of FDI in India in the last two decades of post-liberalization is drastically different from that in the pre-liberalization period. Earlier, the manufacturing sector was the largest recipient of FDI in India, but now it has been replaced by the service sector.

**Table 4: Sectors Attracting Highest FDI Equity Inflows into India (Amount in USD Million)**

Sl. No.	Sector	2017 - 18 (April-March)	2018 - 19 (April-March)	Cumulative FDI Inflows [from April 2000 to December 2019]	Percentage of Total Inflows
1	Services Sector*	6,709	9,158	80,670.79	17.7
2	Computer Software & Hardware	6,153	6,415	43,586.95	9.5
3	Telecommunications	6,212	2,668	37,116.34	8.1
4	Construction Development#	540	213	26,541.60	5.8
5	Trading	4,348	4,462	25,371.47	5.6
6	Automobile Industry	2,090	2,623	23,892.81	5.2
7	Chemicals (Other Than Fertilizers)	1,308	1,981	17,441.95	3.8
8	Drugs & Pharmaceuticals	1,010	266	16,396.56	3.6
9	Construction (Infrastructure) Activities	2,730	2,258	16,156.21	3.5
10	Power	1,621	1,106	14,652.96	3.2
11	Others	12,136	13,216	1,55,083.35	33.9
	Grand Total	44,857	44,366	4,56,910.99	100.0

**Note:** \*Financial, Banking, Insurance, Non-Fin/Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis, Other; #Townships, Housing, Built-Up Infrastructure, and Construction-Development Projects.

**Source:** Department for Promotion of Industry and Internal Trade, MoCI, Gol

**Concluding Remarks**

India, after following four decades of restrictive policies towards foreign direct investment, started liberalizing its foreign investment policies in 1991 to attract more FDI into the country. The liberalization measures have resulted in a dramatic upsurge in the FDI inflows into the country compared to a sluggish trend in the FDI inflows into the country in the pre-liberalization period. Not only the amount of FDI inflows but also the share of India in the global FDI inflows has increased in the post-liberalization period, clearly reflecting the role of liberalization in attracting FDI inflows into India. Liberalization has not only increased the FDI inflows, but it also has resulted in increasing the stock of FDI in India to augment the domestic capital formation and technology efforts in the country. Even though the share of FDI stock in India in the global FDI stock

has not increased significantly, FDI stock as a proportion of the GDP of India has shown a sharp increase during the post-liberalization period.

We have examined the patterns of FDI inflows in India in the last two decades to get a better understanding of the present status of FDI in the country. The equity capital has been the largest component of the FDI in India, and its share in the total FDI inflows has been increasing during the last two decades.

Examination of the source countries contributing FDI inflows into India revealed that Mauritius and Singapore had been the two important sources of FDI inflows into India during the last two decades. More than half of the FDI flows into the country during the last two decades were from these two countries. These two countries have become the largest sources of FDI inflows into the country because of the tax

treaty of India with these countries, and FDI from other countries like the USA and UK have been routed through countries to India.

The sector-wise distribution of FDI in India has changed drastically during the post-liberalization period. Traditionally, manufacturing had been the largest recipient of FDI in India. But this has changed considerably in the second later phase of the post-liberalization period. The service sector has emerged as the largest recipient of FDI during the last two decades of the post-liberalization period in India.

Our analysis has given clear empirical support to our hypothesis that the impact of the FDI liberalization has a significant impact on enhancing the FDI flows as well as stock in India. Our analysis has furnished empirical support to our second hypothesis also by revealing the fact that the liberalization measures have resulted in changing the pattern of FDI inflows and its distribution in the country. In this context, we think that the government should continue formulating appropriate policy changes to attract more FDI into technology-intensive, employment-generating, and export-oriented sectors in India.

**Appendix**

**Table A1: Trends and Growth in FDI Inflows to India (1980 – 2018)**

Year	FDI Inflows to India (in US dollars at current prices in millions)	AGR(%)*	CAGR (%)#	Year	FDI Inflows to India (in US dollars at current prices in millions)	AGR(%)*	CAGR (%)#
1980	79.2	--	14.17%	2004	5777.8	33.7	52.55%
1981	91.9	16.1		2005	7621.8	31.9	
1982	72.1	-21.6		2006	20327.8	166.7	
1983	5.6	-92.2		2007	25349.9	24.7	
1984	19.2	241.1		2008	47102.4	85.8	
1985	106.1	451.4		2009	35633.9	-24.3	6.34%
1986	117.7	11.0		2010	27417.1	-23.1	
1987	212.3	80.3		2011	36190.5	32.0	
1988	91.3	-57.0		2012	24195.8	-33.1	
1989	252.1	176.3		2013	28199.4	16.5	
1990	236.7	-6.1	2014	34582.1	22.6		
1991	75.0	-68.3	2015	44064.1	27.4		
1992	252.0	236.0	2016	44480.6	0.9		
1993	532.0	111.1	2017	39903.8	-10.3		
1994	974.0	83.1	2018	42285.7	6.0		
1995	2151.0	120.8	26.12%				
1996	2525.0	17.4					
1997	3619.0	43.3					
1998	2633.0	-27.2					
1999	2168.0	-17.7					
2000	3588.0	65.5					
2001	5477.6	52.7					
2002	5629.7	2.8					
2003	4321.1	-23.2					

**Note:** \* Annual Growth Rate (%); # Compound Annual Average Growth Rate (%)

**Source:** UNCTAD Stat

**Table A2: Trends Inward FDI Stock in India (1980 – 2018)**

Year	Inward FDI Stock in India (in US dollars at current prices in millions)	Annual Growth Rate (%)	Year	Inward FDI Stock in India (in US dollars at current prices in millions)	Annual Growth Rate (%)
1980	451.8	---			
1981	543.7	20.3	2000	16339.0	8.6
1982	615.8	13.3	2001	19675.9	20.4
1983	621.4	0.9	2002	25826.3	31.3
1984	640.6	3.1	2003	32549.2	26.0
1985	746.7	16.6	2004	38060.2	16.9
1986	864.5	15.8	2005	43201.6	13.5
1987	1076.8	24.6	2006	70870.3	64.0
1988	1168.0	8.5	2007	105790.5	49.3
1989	1420.1	21.6	2008	125211.7	18.4
1990	1656.8	16.7	2009	171217.9	36.7
1991	1731.8	4.5	2010	205580.2	20.1
1992	1983.8	14.6	2011	206354.3	0.4
1993	2515.8	26.8	2012	224985.3	9.0
1994	3489.8	38.7	2013	226548.8	0.7
1995	5640.8	61.6	2014	253120.0	11.7
1996	8165.8	44.8	2015	282616.8	11.7
1997	9719.5	19.0	2016	318319.7	12.6
1998	13076.9	34.5	2017	377286.8	18.5
1999	15051.8	15.1	2018	386353.7	2.4

Source: UNCTAD Stat

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