

DETERMINANTS OF FOREIGN DIRECT INVESTMENT IN INDIA**V. Prema, Ph.D Full Time Scholar****Dr.R.Kalidoss, Assistant Professor**

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ABSTRACT:

Tamil Nadu is India's most urbanized state. It has a well developed manufacturing sector, with the largest number of factories in operation in India and the country's largest pool of skilled labor. The state leads in automotive, engineering, research and development, health care, IT and IT enabled services, textiles, cotton, financial and leather industries. The state is also among India's top foreign direct investment destinations, accounting for 7 percent of total inflows into India from 2011-2021. The state hosts manufacturing facilities over 50 Fortune 500 companies and is home to the largest Japanese and Korean investments in India. Its capital Chennai is a premier automotive hub. Tamil Nadu is a top investment intodestination in India for foreign investors due to the state's advanced infrastructure and network capacity as well as locational advantages that caters to its well established manufacturing eco system and facilitate exports. Tamil Nadu economic activity centers around its service, manufacturing and agriculture sectors. Foreign direct investments contribute 14.9 percent to the total investments received by the state. Tamil Nadu boasts of the second highest nominal gross state domestic product in India at US \$260 billion in 2019-2020. This paper mainly focuses on different sectors FDI inflows in India such as Manufacturing, Construction, Financial Services, Miscellaneous, Retail & Wholesale trade, Telecommunication. Therefore, there is an attempt to find out the determinants of FDI inflows in India during the last ten years from 2011-12 to 2020-2021. The researcher used Growth rate to find out the increases or decreases of FDI in various sectors during the last tenyears.

Keywords: Foreign Direct Investment, Investment, Sectors.**INTRODUCTION:**

Foreign direct investment policies play a major role in the economic growth of developing countries around in the world. Changing to favorable policies in order to attract FDI inflows has become a key battle ground in the emerging markets. Foreign direct investment plays a complementary role in overall capital formation and in filling the gap between domestic savings and investment. At the macro level, foreign direct investment is a non debt creating source of additional external finances; FDI is expected to boost the national income and output level. At the micro level, foreign direct investment is likely to influence the technical and administration effectiveness of the joint ventures, improved skill levels through labour training local firms through technology transfer and spillover effects. In India, foreign direct investment is reflected as a developmental tool, which aids in attaining self – reliance in various sectors and in inclusive development of the economy. India alike various other developing nations, primarily pursued an inward looking expansion stratagem of importsubstitution along with a constricting policy towards FDI.

India's economy is developing rapidly and attracting foreign direct investment (FDI) to boost their domestic value for investment and acquire new technologies and management skills. The promotion of foreign direct investment (FDI) is an important part of the ongoing economic transformation in India. Most of the approaches to attracting foreign direct investment (FDI), due to the indicators that various measures aimed at promoting foreign investment (FDI) are needed and will lead to increased investment. According to UNCTAD (United Nations conference on Trade & Development -World investment report 2020) India stands at the 9th position amongst top ten countries attracting FDI. According to ReserveBank of India Annual report as on 2020-21 the total foreign direct investment in India is 52,545 US \$ Million.

REVIEW OF LITERATURE:

Ghousia Khatoon (2016), in their study examined “A study on Growth of Foreign Direct Investment in different sectors of Indian Economy – A descriptive and Analytical study”, the main objectives of the study is to analyze the country wise inflows of FDI in India. The researcher concluded that FDI is of vital importance to an Indian economy as it leads to not only capital formation but also increased employment opportunities, transfer of technology, higher standard of living, access to global managerial skills, optimum utilization of human capabilities and natural resources, access to international quality of goods etc.

Yilmaz Bayar (2018) in their study titled on “Foreign Direct Investment Inflows and Financial Development in Central and Eastern European Union Countries: A Panel Cointegration and Causality”, Foreign Direct Investment (FDI) inflows in the globalized globe have risen significantly since the mid-1980s. The primary goal of his study is to evaluate relationships with panel data analysis between FDI inflows and the growth of the financial industry in Central and Eastern European Union countries from 1996 to 2015. The researcher finding shows that there is no co-integrating connection between FDI inflows, foreign portfolio investments, and financial sector development, but there is a one-way causality from financial sector development to short-term FDI inflows.

M. Kanaga, K. Uthayasuriyan (2019), in their study observed that “Foreign Direct Investment: A Feature Key Driver’s for India’s Growth in its sector”, the main objective of his study is to analyze the country wise FDI flows in IT sector. From his results it is concluded that the 2017-18 contributes the major trend value of IT Sectors inflow with 2487 million followed by 2016-17 with 2361.8 million. The least trend value of inflows is 2013-14 with 1985.6 million. The researcher suggested that the government should formulate measures that could attract more foreign investment in the manufacturing sector than in the IT sector. India’s FDI policy has liberalized to make the market more attractive to investors. Today, all international bodies, including the IT Sector, regularly rank the nation among the top three worldwide investment locations.

OBJECTIVE OF THE STUDY:

The main objective of the study is to analyse the determinants of foreign direct investment in India.

DATA ANALYSIS AND INTERPRETATION:

FDI policy is an enabling policy which is uniformly applicable in the country. Government has put in place a liberal and transparent policy for Foreign Direct Investment (FDI), wherein most of the sectors are open to FDI under the automatic route. The Government reviews the FDI policy and makes changes from time to time, to ensure that India remains an attractive & investor friendly destination. Make in India initiative was launched with the objective of facilitating investment, fostering innovation, building good quality manufacturing infrastructure, making it easy to do business and enhancing skill development. The initiative is further aimed at creating a conducive environment for investment, modern and efficient infrastructure, opening up new sectors for foreign investment and forging a partnership between government and industry through positive mindset.

GROSS INFLOWS OF FOREIGN DIRECT INVESTMENT IN INDIA FROM 2011 TO 2021:

The gross inflow of Foreign Direct Investment in India from 2011 to 2021 were given in below table 1.1

Table 1.1 :Gross Inflows of Foreign Direct Investment in India from 2011 to 2021 (US\$ million)

Year	FDI in India	Increase/ Decrease	GR %
2011-12	36306	-	-
2012-13	37140	834	2.29
2013-14	38745	1605	4.32

2014-15	42630	3885	10.02
2015-16	50800	8170	19.16
2016-17	23473	-27327	-53.7
2017-18	18286	-5187	-22.0
2018-19	16054	-2232	-12.20
2019-20	24748	8694	54.15
2020-21	31978	7230	29.21
Minimum	16054		
Maximum	50800		
Mean	32016		
Standard Deviation	11178.6		
CAGR	-11.92		

Source: Reserve Bank of India, Annual Report



Figure 1.1 :Gross Inflows of Foreign Direct Investment in India from 2011 to 2021

The Foreign Direct Investment inflow into India in absolute terms has decreased from \$36306 million to \$31978 million for the years 2011-12 to 2020-21. The trends of Foreign Investment inflows into India shows the increasing trends over the year except a few years. The highest annual growth rate viz. 54.15 per cent was recorded in the year 2019-20 and the lowest annual growth rate viz. -53.7 per cent recorded in the year 2016-17. In some of the years under the study periods shows the negative growth rate.

FOREIGN DIRECT INVESTMENT INFLOWS IN INDIA- MANUFACTURING SECTOR:

Manufacturing has played a key role in the economic growth and development of India. Over the past couple of years government of India has introduced several reforms and measures to boost India's manufacturing sector. Foreign Direct Investment in India's manufacturing sector reached USD 89.15 billion between April 2000 to December 2020. To further boost FDI, earlier in Sep 2020, government of India slashed the base corporate tax rate from 25 percent to 15 percent for new manufacturing sector.

Table 4.2 : Foreign Direct Investment Inflows In India - Manufacturing Sector (US\$ million)

Year	FDI in Manufacturing sector	Increase /Decrease	Growth Rate (%)
2011-12	9,337	-	--
2012-13	6,528	-2809	-30.08

2013-14	6,381	-147	-2.25
2014-15	9,613	3232	50.6
2015-16	8,439	-1174	-12.21
2016-17	11,972	3533	41.86
2017-18	7066	-4906	-40.97
2018-19	7919	853	12.07
2019-20	8153	234	2.95
2020-21	6739	-1414	-17.3
Minimum	6,381		
Maximum	11,972		
Mean	8214.7		
Standard Deviation	1737.76		
CAGR	-3.20		

Source: Reserve Bank of India, Annual Report.

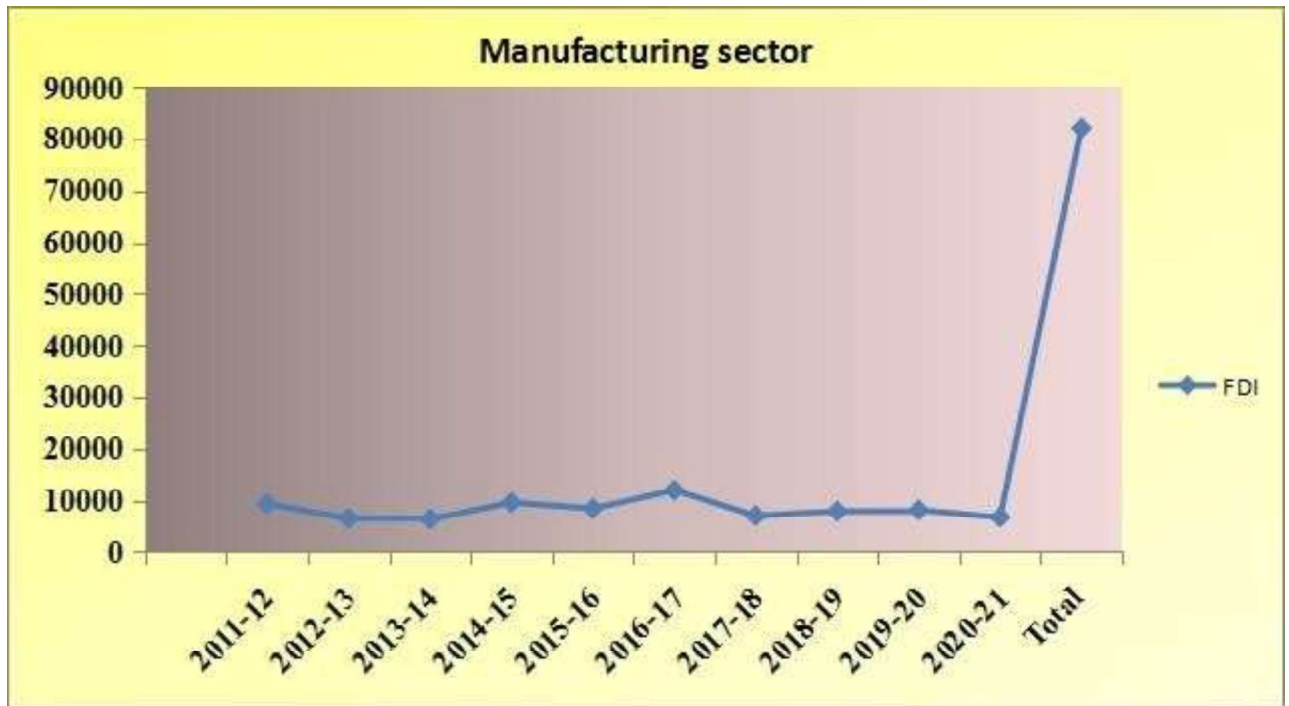


Figure 1.2 :Foreign Direct Investment Inflows In India - Manufacturing Sector

It is observed from the above table 1.2 that FDI inflow in India has gone up from 2011 to 2021. FDI inflow in India has \$9,337 million during the year 2011-12 and it gradually decreased from 2012 to 2014 was \$6,381 million. Again it has increased to \$11,972 million during the year 2016-17 simultaneously again it has decreased from 2020-21 was \$6,739 million. FDI inflow in India has positive growth rate during the year 2014-15 and 2016-17. The highest annual growth rate viz. 50.6 per cent was recorded in the year 2014-15 and the lowest annual growth rate viz.- 40.97 per cent recorded in the year 2017-18. In some of the years under the study periods shows the negative growth rate.

FOREIGN DIRECT INVESTMENT INFLOWS IN INDIA- MISCELLANEOUS SERVICES:

The foreign direct investment in miscellaneous services in India were given in below table 4.3

Table 1.3 :Foreign Direct Investment Inflows in India- Miscellaneous Services (US\$ million)

Year	FDI in Miscellaneous services	Increase /Decrease	Growth Rate (%)
2011-12	801	-	-
2012-13	552	-249	-31.08

2013-14	941	389	70.4
2014-15	586	-355	-37.72
2015-16	1022	436	74.4
2016-17	1816	794	77.6
2017-18	835	-981	-54.01
2018-19	1226	391	46.82
2019-20	443	-783	-63.8
2020-21	671	228	51.4
Minimum	443		
Maximum	1816		
Mean	889.3		
Standard Deviation	402.1841		
CAGR	-1.75		

Source: Reserve Bank of India, Annual Report.



Figure 1.3 : Foreign Direct Investment Inflows in India – Miscellaneous Services

It is observed from the table 1.3 the gross inflows of Foreign Direct Investment in miscellaneous services from 2011 to 2021. A Foreign Direct Investment inflow in India has \$801 million during the year 2011-12 and it gradually increased during the year 2016 to 2017 was \$1816 million. FDI inflow in India has positive growth rate in miscellaneous services during the year 2013-14, 2015-16, 2016-17, 2018-19 and 2020-21. The highest annual growth rate viz. 77.6 per cent was recorded in the year 2016-17 and the lowest annual growth rate viz. -63.8 per cent recorded in the year 2019-20. In some of the years under the study periods shows the negative growth rate.

4.3.5 FOREIGN DIRECT INVESTMENT INFLOWS IN INDIA- RETAIL AND WHOLE SALE TRADE:

India has taken liberal stand to the extent allowed FDI for cash and carry wholesale trading, B2B (Business to Business) transactions, single brand product etc., foreign direct investment in retail trading except for single brand products has been not allowed. Restricting foreign direct investment in retail is primary to protect India's traditional unorganized retailing.

Table 1.4 : Foreign Direct Investment Inflows in India- Retail and wholesale trade (US\$ million)

Year	FDI in Retail & Wholesale trade	Increase /Decrease	Growth Rate (%)
2011-12	567	-	-
2012-13	551	-16	-2.821
2013-14	1139	588	106.7

2014-15	2551	1412	123.96
2015-16	3998	1447	56.722
2016-17	2771	-1227	-30.69
2017-18	4478	1707	61.60
2018-19	4311	-167	-3.729
2019-20	4914	603	13.987
2020-21	2960	-1954	-39.76
Minimum	551		
Maximum	4914		
Mean	2824		
Standard Deviation	1629.209		
CAGR	17.96		

Source: Reserve Bank of India, Annual Report.



Figure 1.4 : Foreign Direct Investment Inflows in India – Retail and wholesale trade

It is observed from the table 1.4 the gross inflows of Foreign Direct Investment in retail and wholesale trade from 2011 to 2021. A Foreign Direct Investment inflow in India has \$567 million during the year 2011-12 and it gradually increased during the year 2015 to 2016 was \$3998 million. But simultaneously it has decreased to \$2771 million during the year 2016-17. Again it has increased Rs.4914 million during the year 2019-20. FDI inflow in India has positive growth rate in retail and wholesale trade during the year 2013-14 to 2015-16, 2017-18 and 2019-20. The highest annual growth rate viz. 123.96 per cent was recorded in the year 2014-15 and the lowest annual growth rate viz. -39.76 per cent recorded in the year 2020-21. In some of the years under the study periods shows the negative growth rate.

CONCLUSION:

FDI policy is an enabling policy which is uniformly applicable in the country. Government has put in place a liberal and transparent policy for Foreign Direct Investment (FDI), wherein most of the sectors are open to FDI under the automatic route. The Government reviews the FDI policy and makes changes from time to time, to ensure that India remains an attractive & investor friendly destination. Make in India initiative was launched with the objective of facilitating investment, fostering innovation, building good quality manufacturing infrastructure, making it easy to do business and enhancing skill development. The initiative is further aimed at creating a conducive environment for investment, modern and efficient infrastructure, opening up new sectors for foreign investment and forging a partnership between government and industry

through positivemindset.

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