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OUTWARD FOREIGN DIRECT INVESTMENT FLOWS FROM INDIA: TRENDS AND GROWTH

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ABSTRACT

The growth and FDI flow patterns from India in terms of sectors and geographies using time series data of outward FDI from 2000-01 to 2020-21 were analyzed. It was observed that both inwards flows and outwards flows of FDI from India showed an upward increasing trend. An examination of India's FDI outflows broken down by industry shows that 63.80% has been invested in Financial, insurance, manufacturing industry, as well as the retail and commercial services sectors throughout the time period of study. Expected Outgoing FDI from India using ARIMA models for the period of 2021-22 to 2029-30 show growth in increase in all sectors except manufacturing sector and all countries except Russia.

Keywords:
Outward FDI, Trend, Policy reforms, Sector wise analysis, Geographical destination

INTRODUCTION

Foreign direct investment, an important non-debt financial resources source, integrates economy of a country with the other countries through inflows and outflows of FDI. FDI by Private and state-owned companies are encouraged to get access to resources, markets or innovations which are available internationally. The overseas FDI provide corporate sector of host country better access to networks and markets of the world, transfer of technology to host country and sharing of research, efforts and outcomes by other countries (Khan, 2012). India has emerged as one of the top beneficiaries of inward FDI. since the opening of its economy on account of its business environment and investment friendly rules and regulations in past years. Since India's economic reforms in 1991 and series of policy measures during 1998 and 1999 both inwards and outwards FDI flows has been rising on sustained basis. As a result of liberalization measures India not only has become attractive destination for foreign investments, but also a significant source of outward foreign investments.

REVIEW OF LITERATURE

Khan (2012) analysed sector and destination wise investment trends and indentified emerging issues of Indian outward FDI. Factors providing momentum to and evolution of outward FDI policies in India were detailed. Measures taken by government of India and emerging issues in outward FDI were discussed. Saikia (2012) observed that India has become one of the major exporters of FDI. The Indian investors/firms invest abroad for access to new innovations, expertise and management know-how from developed countries. Chopra and Sachdeva (2014) analyzed role of FDI in promotion of India's economic growth. Strong positive interactions between FDI and business to grow economically were observed. Deol (2017) analyzed trends in foreign direct investment from India from 2000-01 to 2013-14 and observed that it has been invested mainly in manufacturing sector; and services sector and to the developed countries. Emerging issues of India's outward FDI were also discussed. Pradhan (2017) observed that more and more Indian companies across a wide range of industries are increasingly investing abroad. Services sector became leading outward FDI sector and India outward FDI flows have expanded geographically. Kaushal (2018) found that the surge in India outward FDI flows after 2000 onwards is due to automobile industries, information technology, pharmaceutical software and telecommunications. Saikia and Borbora (2018) examined impact of home-country macro-economic factors on growth of outward FDI flows from India using vector error correction model. GDP has positive significant impact on outward FDI whereas money supply and inflations have negative significant in the long-run. Joseph (2019) found that liberalization of outward FDI, removing blanket caps and linking foreign investments to investors' net worth are the main reasons for the surge in FDI flows from India. Services are the leading sector followed by manufacturing sector and agriculture and mining. Developing countries are leading destinations of outward FDI flows in services, agriculture and mining sector. Sinha and Rawal (2019) investigated trends in outward FDI from 2008 to 2019. India's outward FDI in developed nations has increased overtime but it is still below its FDI in developing countries. Rajesh (2020) analyzed time series data of outward FDI of post-liberalization period (1992 to 2018) of India and observed that outward FDI flows is increasing faster than the inward FDI, both in terms of stock as well as FDI flows. India's share of global FDI and of FDI flows from developing countries is steadily increasing. Nandrajog (2020) observed rapid increase in the outflow of FDI form India but its share in global outward FDI is negligible. India invests a considerable amount in tax havens and developed economics. The services sector accounts for the highest share of FDI flows.

RESEARCH METHODOLY

The study is carried out using data of various sources such as RBI newsletters and other publications of the Government Department of Economic Affairs websites of India, an Export-Import Bank, etc. This is time series data and the relevant data has been collected for the period of January 2000 to 2020-21.

The data collected is analyzed and presented in the form of numbers and bar graphs to show the trends and growth of FDI from India. The study has been undertaken to analyze trends and patterns of sector wise and geographical destination wise outward FDI flows and to determine geographical destination wise and sector wise growth and development of FDI out flows from India.

RESULTS AND DISCUSSION

The policy regime and environment governing FDI inflows and outflows has undergone major changes in the last three decades. The liberalisation process undertaken in 1991 led to steady growth of flows of FDI both inward and outward. Inward and outward flows of FDI increased considerably after 2000 when restrictions were further liberalized.

1. Trend analysis of flows of FDI both inward and outward in India

The trend of inwards and outwards FDI flows from India for the year 2000-01 to 2020-21 are shown Figure 1. The inwards FDI flows in India which was equal to US$ 2463 million in 2000-01, rose to US$ 59636 million in 2020-21, an increase of 24 times with a compound annual growth rate of 16.39%. The compounded annual growth rate of FDI inflow in India during 2001-10 time periods was 26.49% where as it was 9.77% during 2011-21 time periods. In the years 2001–2010, there was a notable surge in inward FDI flows. The year 2005–06 had the highest annual growth rate (265.85%), while the year 2012–13 had the lowest annual growth rate (-36.16%). FDI inflow in India recorded negative growth rate during six years in the study period. However, a significant linear upward trend (R^2= 0.89) in FDI inflows has been observed for the study period. The FDI flowing into India helped in acquisition of better technology, employment generation, and better access to global markets.

Outward FDI flows composition and patterns have undergone change over the study period due to changes in policy environment across the economies of the world. The multinational firms enjoy ownership, locations and internationalization advantages to producing abroad. In the Indian context, a number of initiatives to liberalize policy towards outward FDI and Institutional changes has been divided into three phases: Phase I (from 1992 to 1995) was the time of the Indian economy's liberalization; Phase II (from 1995 to 2000) was the construction of the fast-track route; and Phase III (from 2000 to the present)- relaxed framework in accordance with FEMA regulations. In third phase Indian companies were permitted 100% investment of their total net worth. The limit was gradually increased to 400 % in 2008. These policies gave Indian businesses access to sufficient capital markets to fund their international acquisitions. which resulted in rapid growth of FDI outflows. Between 2000–01 and 2020–21, the amount of foreign direct investment (FDI) flows increased from US$ 999 million to US$ 10647 million. The analysis shows that the volume of outward FDI flows has grown 10.66 times since 2000-01 with compounded annual growth rate of 11.93% due to cross border acquisition and expansion of business. An increasing number of Indian businesses are turning to foreign investment to gain access to high-growth markets for their goods, to acquire highly skilled labor, knowledge, and management expertise, to source raw materials, to acquire international brand names, to improve their positioning within the value chain, to achieve economies of scale and size, and to fulfill their aspirations of becoming global leaders. (Pradhan, 2007). India has become a significant investor due to its faster economic growth, easy availability and a strong desire to acquire resources and strategic assets from abroad, in addition to its liberalized policy environment for foreign investment (Khan,2012). The sharp increase in outward FDI flows was observed during first half of study period as compared to second half. The compounded annual growth rate of inwards FDI flow from India during 2001-10 time periods was 34.22% where as it was -5.53% during 2011-21 time periods. The highest annual growth rate (265.85%) was observed in 2005-06 whereas lowest growth rate (-44.57%) in 2014-15. FDI outflows from India recorded negative rate during last three years. In general, India has seen a consistent increase in foreign direct investment flows during the study period.

The outward FDI observed a falling trend from 2008-09 to 2014-15 mainly due to fall in outward FDI to British Virgin Islands and Cayman Islands and due to global economic crises 2008-09. It is clear from the above that both FDI (inflows and outflows) from India have been rising on sustained basis on account of business environment and investment friendly policies and regulations. India not only became attractive destination for FDI but also a significant source of outward FDI. Higher flow of inwards FDI and increase in FDI outflows is unmistakable evidence of India's economy being integrated with the economies of other countries.

2. Sector wise as well as geographical distribution wise FDI flows from India

Outward FDI flows in last two decades have under gone a perceptible change in magnitude and sector wise composition and geographical distribution. Figure 2 shows the sectoral FDI flows from India during the period 2003-04 to 2020-21. The sector wise pattern of FDI outflows from 2003-04 to 2020-21 shows that sectors attracting highest investments are Financial, insurance, retail and business services (31.26%) and Manufacturing (32.54%) followed by Whole sale, retail trade, restaurant and hotels (10.03%), Agriculture and mining (9.88%), Transport, and communication (7.17%), Construction (4.12%), Community and Social services (2.47%), Electricity, water and Gas (1.70%), and Miscellaneous (0.81%). Outward FDI have widely spread economic activities in both Financial, insurance, retail and business services sector and manufacturing sector. The major subsectors in manufacturing sectors are agriculture machines and equipment, food and textiles, chemicals and pharmaceuticals etc. Outward Foreign direct investment flowed into ICT and ICT-enabled services in finance, insurance, retail, business, data processing, financial and other technical advisory services.

The compounded annual growth rate of Financial and business services; Manufacturing; trade, hotels; Agriculture and mining; Transport and communication; Construction; Community and personal services; Electricity, water and Gas; and miscellaneous sectors during 2004-05 to 2020-21 was 17.66%, 7.23%, 14.92%, 22.52%, -2.76%, 38.53%, 8.00%, 33.59% and 18.83% respectively. The compounded annual growth rate of Financial, retail and business services; Manufacturing; trade, restaurant and hotels; Agriculture and mining; communication and Transport services; Construction; Community personal services; Electricity, Gas and water; and miscellaneous sectors during 2004-10 was 55.87%, 28.29%, 32.48%, 72.15%, 28.1%, 125.88%, 28.10%, 161.67% and 68.95% respectively whereas annual growth rate (compound) during 2011-21 was – 5.07%, -3.8%, 0.18%, -3.47%, -15.40%, 1.02%, -14.37%, 5.68% and 9.17% respectively. The highest growth rate of 809.80% (2006-07), 359.38% (2005-06), 110.07% (2005-06), 1818.36% (2013-14),14.54.84% (2005-06), 2858.23% (2004-05), 288.89% (2010-11), 5476.41% (2016-17) and 3614.29% (2005-06) for Financial services;

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Manufacturing; Whole and retail trade, restaurant and hotels; Agriculture and mining; Transport and communication and services; Construction; Community Social services; Electricity, Gas and water; and miscellaneous sectors respectively.

Manufacturing sector was leading outward FDI sector from 2003-04 to 2015-16 except 2006-07 to 2007-08, 2010-2011 to 2011-12, the Financial and retail sector became leading outward FDI sector form 2016-17 displacing manufacturing sector. The share of manufacturing sector outward FDI was 55.59% in 2003-04, its share declined to 30.86% in 2020-21 while the share of finance, insurance, retail business services sector increased from 11.72% in 2003-04 to 34.61% in 2020-21.

India has invested US$ 240623.49 million in 169 countries during last 21 years (April 2000 to March 2021). As per fact sheet the contribution to top eleven destination countries, all having more than 2.50% contributions, during the above period are: Singapore US$ 47,226.47 million (19.60%), Mauritius US$ 36,115.48 million (15.00%), United States of America (USA) US$ 25,187.68 million (10.50%), Netherlands US$ 21,717.79 million (9.00%), United Kingdom US$ 14,913.87 million (6.20%), United Arab Emirates US$ 10705.19 million (4.40%), Channel Island US$ 10579.22 million (4.40%), British Virgin Islands US$ 7,836.04 million (3.30%) , Russia US$ 7,213.65 million (3.00%), Cyprus US$ 6477.05 million (2.70%) and Switzerland US$ 5918.17 million (2.50%). The total outward FDI contribution to these eleven countries from April 2000 to March 2021 is 80.6%. Since continuous time series data of outward FDI for Channel Island and Cyprus for the period of 2001-02 to 2020-21 were not available; therefore, these two countries were excluded from further analyses. The FDI outflows to remaining nine countries are shown in Figure 3. The growth rate of FDI outflows to Singapore, Mauritius, USA, Netherlands, UK, UAE, British Virgin Islands, Russia and Switzerland for the period of 2001-21 were 26.69%,18.60%, 10.97%, 18.98%, 11.20%, 23.92%, 21.20%, -0.31% and 43.23% respectively. The growth rate of FDI outflows were 76.01%, 48.94%, 12.80%, 51.93%, 17.07%, 61.88%, 66.98%, -9.42% and 80.19% for the period 2001-10 whereas it was -3.52%, -12.48%, 5.37%, -2.24%, 5.35%, -2.03%, 1.86%, 10.67% and 9.75% for the period of 2011-21 for Singapore, Mauritius, USA, Netherlands, UK, UAE, British Virgin Islands, Russia and Switzerland respectively. The highest annual growth rate of outward FDI for Singapore, Mauritius, USA, Netherlands, UK, UAE, British Virgin Islands, Russia and Switzerland were observed 2334.88% (2004-05), 417.61% (2015-16), 168.49% (2005-06), 2268.00% (2005-06), 2266.61% (2005-06), 395.92% (2002-03), 1356.72% (2007-08), 12000.00% (2015-16) and 2421.60% (2004-05) respectively. Spatial distribution of outward FDI from India has witnessed a significant shift and it is more diversified across countries. A significant amount of outward FDI (58.4%) from India flows in Mauritius, Singapore, British Virgin Islands, Cayman Islands, Netherlands, Cyprus and Switzerland due to India being party to various regional integration agreements, tax benefits and access to International financial markets. These economies do not have significant domestic market for huge amount of investments but low tax rates make them attractive destinations for redirecting investment to other economies. Eastern Europe, Southeast Asia and Africa have been identified as regions where companies from India will be encouraged to acquire assets and acquire companies to facilitate outward FDI by Government of India. Singapore, because of its geographical proximity, strong cultural and historical relationship with India and Mauritius being in close proximity to Africa to access it, has been major (34.6% total FDI outflows) destination for outward FDI from India.

3. Forecasting sector wise and geographical distribution wise outward FDI flow

ARIMA model were used for projection of sector wise and geographical distribution wise flows of outward FDI flows from India using Box-Jenkins approach to modeling. The modeling procedure involved process of selection of model, estimation of parameters and checking of model. ARIMA models of order (110), (011), (111), (210), (211), (212), (012) (112) were selected for the analysis. The models were tested to obtain accurate results. Based on tests, ARIMA (112), ARIMA (210), ARIMA (012), ARIMA (012), ARIMA (210), ARIMA (111), ARIMA (110), ARIMA (112), and ARIMA (111), model were found to be best fitted for time series of outward FDI of Financial and business services; Manufacturing; trade, hotels; Agriculture and mining; communication and

Transport sservices; Construction; Community Social and personal services; Electricity, Gas and water; and miscellaneous sectors respectively. The ARIMA (112), ARIMA (012), ARIMA (011), ARIMA (111), ARIMA (011), ARIMA (012), ARIMA (011), ARIMA (112), and ARIMA (111) models gave best fit for time series data of Singapore, Mauritius, USA, Netherlands, UK, UAE, British Virgin Islands, Russia and Switzerland respectively.

The above models were used to forecast outward FDI flows from 2021-22 to 2029-30 for the respective sectors and countries. The forecasted value of outward FDI flows values for all the sectors are shown in Figure 4 whereas for all the countries are shown in Figure 5. The forecast from the respective ARIMA models shows that the outward FDI flows from India during 2029-30 is expected to be US$ 7241 million, US$ 3109 million, US$ 3025 million, US$ 2242 million, US$ 890 million, US$ 541 million, US$ 1355 million, US$ 219 million and US$ 22 million for Financial, insurance, retail and business services; Manufacturing; Whole sale, retail trade, restaurant and hotels; Agriculture and mining; communication and Transport; Construction; Community services; Electricity, Gas and water; and miscellaneous sectors respectively. The Figure 5 shows an expected smooth increase of outward FDI flows in all the sectors except manufacturing where the growth will remain stagnated. The Figure 6 shows that there will be positive growth of outward FDI flows to all the countries under study except for Russia. The ARIMA models forecasted that the volume of FDI outflows to Singapore, Mauritius, USA, Netherlands, UK, UAE, British Virgin Islands, Russia and Switzerland during 2029-30 will be US$ 5161 million, US$ 2945 million, US$ 2987 million, US$ 1897 million, US$ 1474 million, US$ 798 million, US$ 520 million, US$ 265 million and US$ 1031 million respectively.

Conclusions

Both inflows as well as outflows of FDI have been rising on sustained basis after liberalization policies of 1991. Integration of economy of India with economies of other countries is evident in higher level of FDI inflows and increased level of FDI outflows. The pattern and composition of FDI inflows from India has changed over the past two decades. The outward FDI form India was US $ 999 million in 2000-01 rose to US $ 10649 million of 2020-21 indicating a growth trend that is on the rise. Pattern of sector wise outward FDI shows that it is mainly invested in Financial, insurance, retail and business services sector and manufacturing. The share of manufacturing sector in 2003-04 was 55.59% of total outward FDI which declined to 30.86% in 2020-21 whereas share of Financial, insurance, retail and business services sector increased from 11.72% (2003-04) to 34.66% (2020-21). The Financial, insurance, retail and business services sector became leading outward FDI sector in 2016-17 displacing manufacturing sector. The recent trend shows that outward FDI expended geographically with more and more Indian companies investing in developed regions. Singapore and Mauritius account for 34.61% of total outward FDI flows from India. The forecast of outward FDI flows by ARIMA models shows increase in growth in all sectors except manufacturing sector where it will remain stagnated. The forecast of outward FDI flows to countries under study shows positive growth in all countries except Russia.

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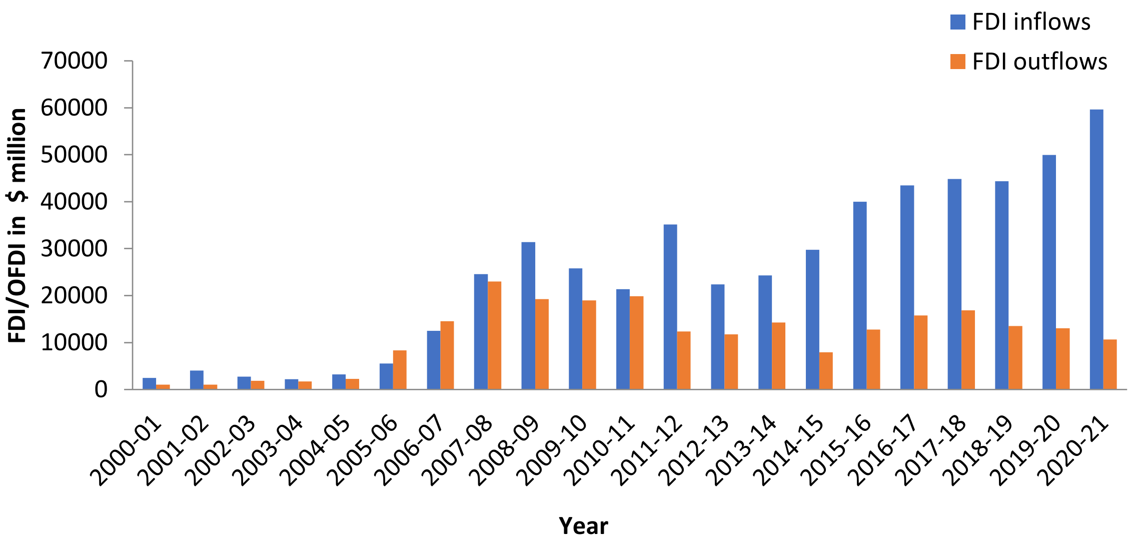

Fig.1 FDI inflows and outflows from India

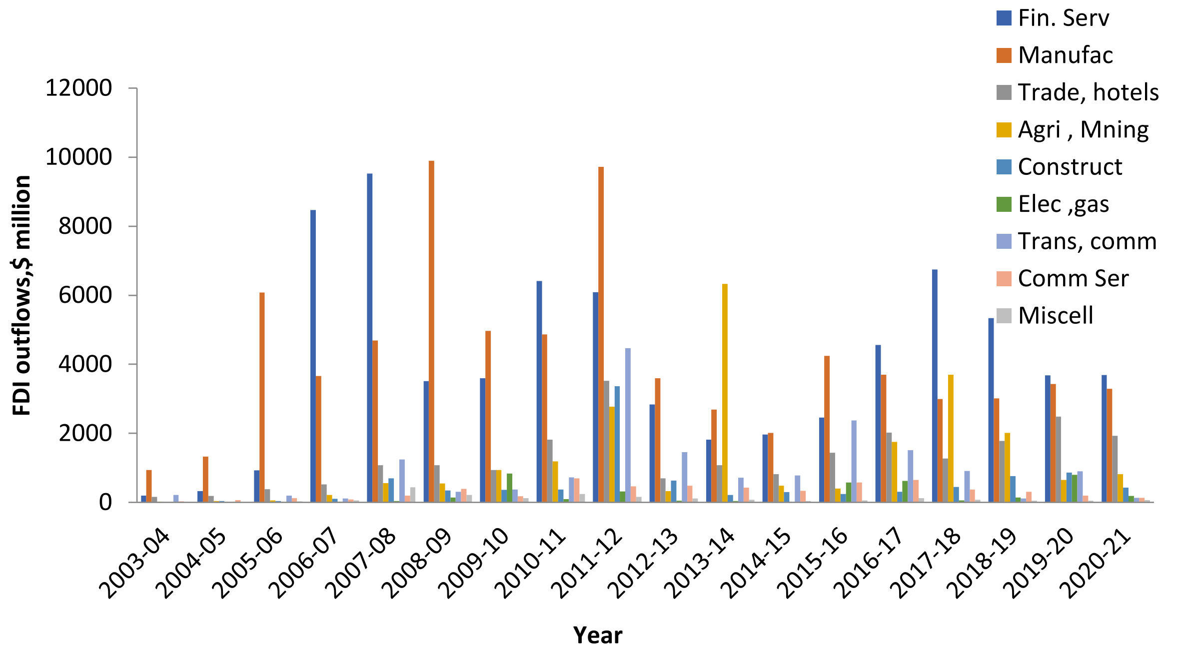

Fig.2 Sector wise FDI outflows from India

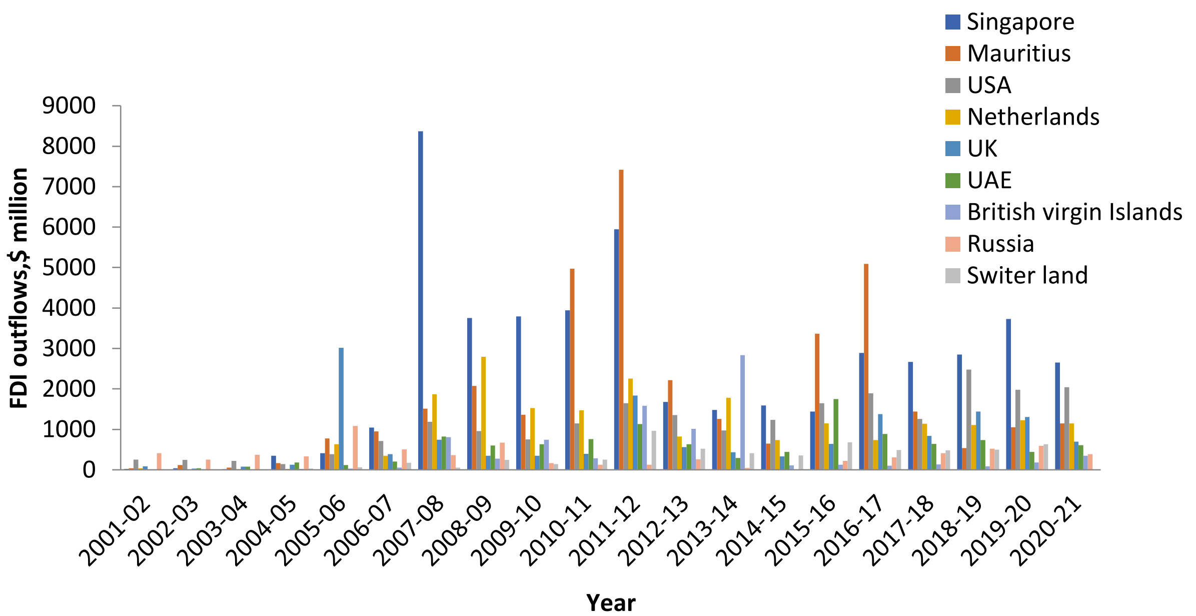

Fig.3 Country wise FDI outflows from India

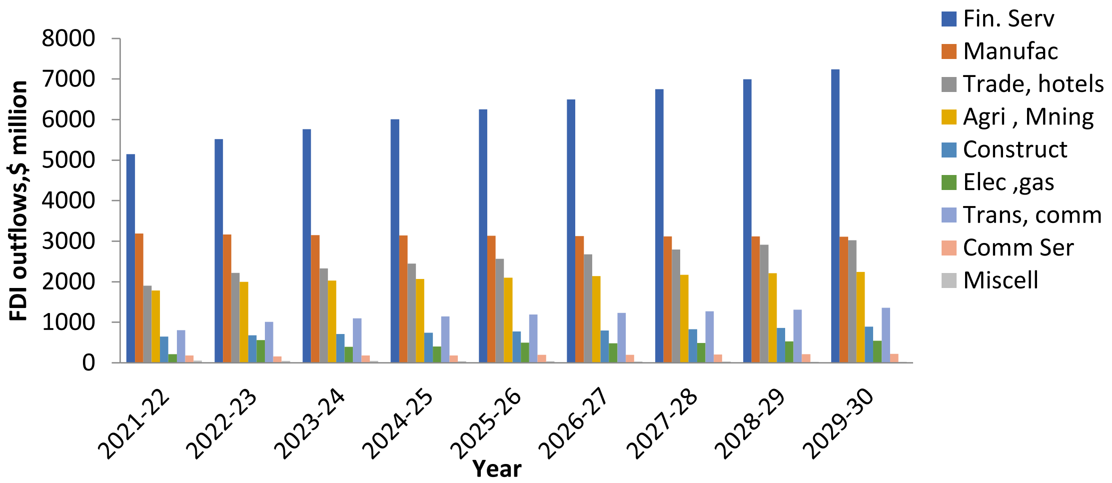

Fig 4.Forecasted sector wise FDI flows from India

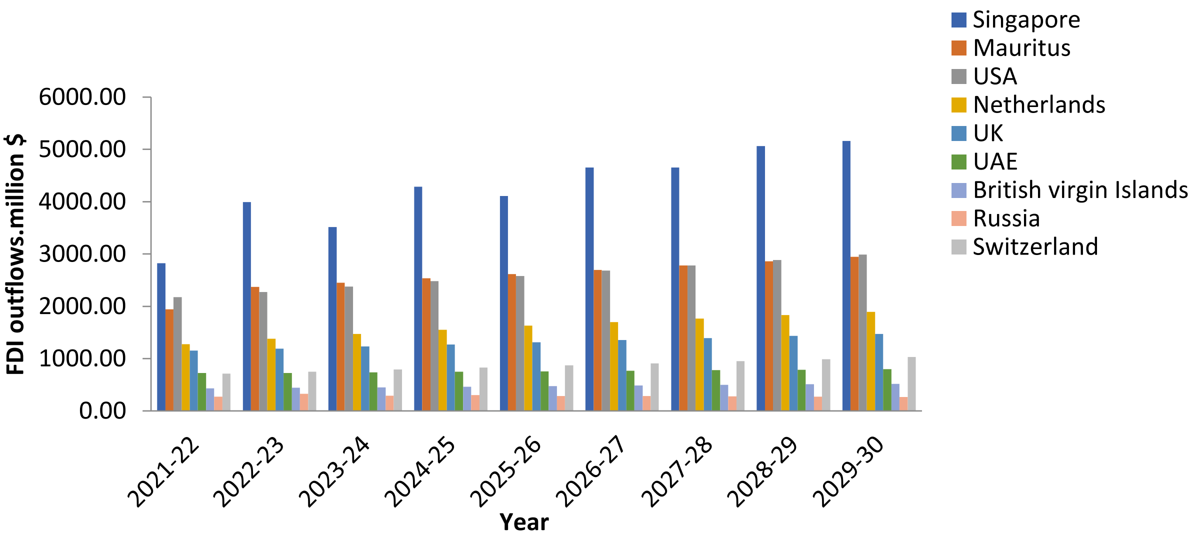

Fig.5.Forcasted FDI outflows to countries