

FDI Inflows in India: A Study of Its Recent Trends and Patterns

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Abstract

There has been an improvement in the economic development of the country due to increased FDI inflows in the country which is largely attributed to strong and audacious policy reforms the government assumed to bring realism in the FDI regime. The objective of this paper is to analyse the sector wise and country wise inflows of FDI during the period 2012-2017. This paper provides a comprehensive evaluation of the empirical evidence on county wise and sector wise FDI. Sector-wise distribution of FDI inflow points out the sectors attracting Major share of FDI. The present study is based on secondary data which has been collected from various reports like Reserve Bank of India Database on Indian Economy, database of department of Industrial Policy and Promotion and various journals and magazines. The paper concludes that all sectors are not equally attractive for foreign investors for making investment. Government should design the FDI policy in such a way, where FDI inflows can be utilized as means of boosting domestic production, savings and exports through the justifiable distribution among various sectors. Study shows that as per the CAGR Communication services attracted highest inflows and as per the share it was manufacturing sector. The British Virgin Island was at highest FDI inflows as per the CAGR and as per the share it is maximum time from Mauritius. It is because the India has Double Taxation Avoidance Agreement (DTAA) with Mauritius.

Keywords: FDI, Country wise, Sector Wise, Communication services, British Virgin Island, Mauritius.

1. Introduction

Foreign direct investment (FDI) has become a vital part of national development policies for almost all the nations globally. It's worldwide acceptance and favourable output, has made it an essential tool for instigating economic growth for countries by supplementing domestic capital,

productivity and employment. In the recent times, FDI in India has contributed efficiently to the inclusive growth of the economy. FDI inflow makes a competitive business environment, thus has an impact on India's transfer of new technology and innovative ideas; improving infrastructure of the country (Vemuri & Dhinesh 2008). "Apart from being a critical driver of economic growth, foreign direct investment (FDI) is a key source of non-debt financial resource for the economic development of India. Foreign companies invest in India to take advantage of relatively lower wages, special investment privileges such as tax exemptions, etc. For a country where foreign investments are being made, it also means achieving technical know-how and generating employment" (IBEF). "The value of India's international trade has increased sharply Since liberalization. India's major trading partners are the European Union, China, the United States and the United Arab Emirates. The exports during April 2007 were \$12.31 billion up by 16% and import were \$17.68 billion with an increase of 18.06% over the previous year. In 2006-07, major export commodities included engineering goods, petroleum products, chemicals and pharmaceuticals, gems and jewellery, textiles and garments, agricultural products, iron ore and other minerals. Major import commodities included crude oil and related products, machinery, electronic goods, gold and silver. Its September 2010 exports were reported to have increased 23% year-on-year to US \$18.02billion, while its imports were up 26.1% at \$27.14billion. August's trade gap was the highest in 23 months at US\$13.06 billion but the economy is well on the road to cross \$200 billion mark in exports for the financial year 2010-11" (Srikant Misra,2011).

The government of the country has undertaken various strong and audacious policy reforms for making India the topmost attractive destination for foreign investment and to bring

realism in the FDI regime. In 2016-17, Inflow of foreign direct investment (FDI) into India reached to a record level of \$43.48 billion which showed an increased by 9 per cent over the previous year. It was the highest ever for a particular financial year. Total FDI including re-invested earnings increased to a “new all-time high” from \$55.6 billion in 2015-16 to \$60.08 billion in 2016-17” (Business Standard, May 2017). During the last three years, the government improvement in ease of doing business in as many as 21 sectors covering 87 areas has resulted in increased FDI inflows which year after year is setting up new records and help to promote domestic industry, restricts import, create jobs and results in conserving valuable foreign exchange.

Need of FDI in India

FDI provides a win – win situation to the host and the home countries. FDI benefited Both countries that’s why they are openly engrossed in welcoming such type of investment. The ‘home’ countries want to take the advantage of the huge markets opened by industrial evolution. On the other hand, the ‘host’ countries want to procure technological and managerial expertise and complement domestic savings and foreign exchange. Moreover, developing nations accepted FDI as a sole obvious remedy for achieving the scarcity of all types of resources viz. financial, capital, entrepreneurship, technological know-how, skills and practices, approach to markets-abroad, for their economic development. Further, the integration of worldwide financial markets paves ways to this volatile growth of FDI around the world (Tomar and Jain 2012). Developing countries like India need significant foreign inflows to realize the necessary investment to hasten economic growth and development. It can act as a facilitator for domestic industrial development. FDI fetches with it other limited productive factors such as technical knowhow and managerial skill, which aids in hurtling up economic activity and equally necessary for economic progress. In 2012-13, the domestic saving rate was expected to be 32.8 percent which was 0.5 percent lower as compare to fiscal year 2011-12. Despite of such a high saving rate, growth rate in 2012-13 is expected to be just 7.5 percent. Domestic saving rate is not able to fuel the required investment to maintain the growth target of Twelfth Five Year Plan (2012-17). Thus, the gap between domestic saving rate and required investment rate will be filled by foreign capital coming through FDI. Foreign investment is not meant to replace the domestic investment but to strengthen the domestic investment.

Services, telecommunications, construction, computers (software and hardware), real estate and housing, chemicals, drugs and pharmaceuticals, power, automobiles and metallurgical industries are certain sectors attracting highest FDI inflows across India. Among these sectors, financial, infrastructure sector including power, telecommunications, petroleum, metallurgy etc are the most vital for the future growth and development of the country. If domestic investment is not coming up in these sectors, gap must be filled by the foreign investment. Of late, the fallout of growth seen in India is the lopsided growth where it evades the under developed states like Uttar Pradesh, Bihar, Jharkhand, Orissa, Chhattisgarh, Madhya Pradesh but are concentrated in Delhi/NCR, Maharashtra, Gujarat etc. A major advantage of foreign investment in India over the domestic investment is that it is coming up in less developed sectors. In 2011-13, Odisha has emerged as the most preferred destination for overseas investors with investment proposals worth Rs 49,527 crore followed by Andhra Pradesh and Gujarat. FDI is crucial for India as it has malformed the quality, productivity and production in areas it has been allowed that’s why India is contending for foreign investments with other developing economies for supplementing its domestic efforts.

2. Review of literature

Singh, J. (2010) analysed the emerging trends and patterns of FDI inflows into India in response to various policy measures announced by the Government of India since 1990. The empirical analysis suggested that the FDI inflows have shown an increasing trend during the post-reform period. Furthermore, country-wise comparison of FDI inflow also indicated that FDI inflow into India has increased considerably in comparison to other developing economies in the recent years. Thus, the study indicated that the FDI inflows into India responded positively to the liberalization measures introduced in the early 1990s.

Babar and Khandare (2012) focused on changing structure, trends and direction of India’s FDI during globalisation period. The study was done through sectoral analysis of top sectors FDI participation in the economy, as well as through study of country wise flow of foreign inflow in India till 2010. The study concludes that service sector has attracted highest (21 percent) FDI inflows; then Computer software, and hardware (9 per cent), telecommunication sector (8 percent) and Housing and Real estate (7 per cent) during 2008 to August 2010. Mauritius (42 per cent to total inflows of FDI) has been largest investor in India, followed by

Singapore (9 per cent) during 2008 to August 2010 among top ten countries.

Backiyavathi (2012) studied that FDI in India has change remarkable after inception of economic reforms in 1991. The given study shows the trends & pattern of FDI in India with respect to different sector, by which he concludes that FDI acts a very crucial role in the growth of developing nations, also it is seen that the many major nations like USA, UK, Mauritius, Japan & France have top places in investment in India. He said that the FDI in India is in the middle of the track whereas it is expected to continue to step up.

Shalini, Ankush and Ritu (2012) Studied the need of FDI in India, to exhibit the sector-wise & year-wise analysis of FDI's in India, to rank the sectors based upon highest FDI inflows. The study concludes that Mauritius is the country that has invested highly in India followed by Singapore, Japan, and USA and so on. It also shows that there has been a tremendous increase in FDI inflow in India during the year 2000 to 2011.

Sharma and Khurana (2013) analysed the sector-wise distribution of FDI inflow to know about which has concerned with the chief share, used a data from 1991-92 to 2011-2012 (post-liberalization period). This paper also discusses the various problems about the foreign direct investment and suggests some recommendations for the same. Study institute that, Indian economy is mostly based on agriculture. So, there is a most important scope of agriculture services. Therefore, the foreign direct investment in this sector should be encouraged.

Khan and Banerji (2014) analysed the determinants, patterns and impact of FDI and FII/FPI on Indian economy for the period 1991–2012 and attempted to find out interrelation between FDI and FII/FPI inflows. The study concludes that Foreign direct investment has slowly moved from manufacturing to service sector probably because of easy entry and exit conditions as well as leveraging labour arbitrage.

Sirisha and Malayadri (2015) have investigated the study on changing trends in flow of FDI. The CAGR (Compounded Annual Growth Rate) percentage is used to show that Luxemburg has highest inflows of FDI and on the other hand communication and manufacturing sector has the highest-level inflows of foreign direct investment.

Vyas (2015) analysed the role of FDI in the economic growth and development of India. Data of Manufacturing, Services & Construction, Real estate, mining sectors etc. from year April 2000 to June 2015 is considered for the study. The study concludes that the inflow of FDI in service sectors and construction & development sector, from April, 2000 to June, 2015 attained substantial sustained

economic growth and development through creation of jobs in India. Computer, Software & Hardware and Drugs & Pharmaceuticals sector were the other sectors to which attention was shown by Foreign Direct Investors (FDI). The study concludes that Mauritius emerged as the most dominant source of FDI contributing. It is because the India has Double Taxation Avoidance Agreement (DTAA) with Mauritius and most of the foreign countries like to invest in service sector.

Manchandani and Gaur (2016) revealed that there has been significant increase in the FDI inflows across various sectors, from different countries, in different time periods after the introduction of make in India initiative. The government is moving ahead with 'Make in India' India initiative by relaxing the sectors which were earlier not in the purview of New FDI policy. This will help significantly in ensuring balanced growth across various sectors throughout the country.

Pankaj Kumar Mandal (2016) analysed the recent trend of FDI inflows to India and to find out the reason behind the trend. Eyeing to the necessary growth of manufacturing industry, Government of India took initiatives to attract foreign direct investment through 'Make in India' campaign. But the recent trend of FDI inflows shows that the foreign investors still prefer Indian service sectors. The study finds that the greatest part of Indian inward FDI is Market Seeking FDI in nature. Since there is a ready market for defence material and sophisticated technology based electronic devices a smart FDI inflows to these sectors may be experienced in near future.

Panicker and divakaran (2016) in their study revealed that FDI in India to several sectors may well get permanent industrial growth together with development because of the formation of work opportunities, improvement of existing manufacturing market sectors. The study concludes that inflow of FDI in service sectors together with manufacturing and in development sector, from April 2000 to March 2013 gained large permanent commercial growth together with development because of the formation of work opportunities with India. Hardware, Software & Computer, as well as Pharmaceutical & drugs sector, have been additional sectors to which often particular attention was exhibited just by Foreign Direct Investors (FDI).

Aggarwal and Solomon (2017) Analysed the trends and pattern of foreign capital (FDI and FII) flow to India its effect and correlation between FDI and FII on Sensex. The study concludes that FDI and FII are the two important investments in the global capital and there is a strongly positive correlation between FDI and Sensex and weak negative correlation between FII and Sensex. Using the multiple

regressions, the results shows that there is there is no significant impact of FII and FDI on BSE Sensex.

Objective of the study

The objective of this research is as follows:

- To study the country wise and sector wise trend and pattern of FDI inflows in term of CAGR.
- To study the country wise and sector wise percentage of FDI inflows.

Research Methodology

To accomplish these objectives the following methodology has been used in the present research work:

Data Source: For the research work the Secondary data has been used for the present study. Which has been collected from various reports like Reserve Bank of India Database on Indian Economy, Database of Department of Industrial Policy and Promotion and various journals and magazines.

Time: For the purpose of analysis data on FDI was taken from the year 2012 to 2017.

Methodology: To evaluate the flow of FDI at both the levels i.e. country wise and sector wise the tools that are used to analyse the data are **Compound Annual Growth Rate (CAGR)** and percentages.

Analysis of the data

Present Study analyse the country wise and sector wise inflows of FDI during the period 2012-2017. County wise and sector wise total inflow of FDI is analysed in term of CAGR as well as in percentage form. A comprehensive evaluation of the empirical evidence on sector wise FDI points out the sector-wise distribution of FDI inflow and its share in total FDI.

Table I displays the FDI inflows from different countries. Compound Annual growth rate has been estimated for a period of 5 years from 2012-2017. After the launch of Make in India initiative a steady growth of FDI inflows has been observed but the CAGR of total FDI in different countries have not been equally successful in attracting FDI. The CAGR ranges from -.9035 to 134.33. The highest FDI annual compound growth is 134.33% from British Virgin Island. This country shows 3 million US \$ FDI inflows in the year 2012-13 which is increased to 212 US million \$ in the year 2016-17. Which is very low in term of value. Above table clearly shows the FDI inflows in increasing trend from different countries after the announcement of “Make in India” Initiative. Lowest CAGR is witnessed from Spain was -. 9035.

Table I Country wise inflow of Foreign Direct Investment

Country /Period	2012-13	2013-14	2014-15	2015-16	2016-17	CAGR%
1	2	3	4	5	6	7
(US \$ million)						
Mauritius	8,059	3,695	5,878	7,452	13,383	10.67626
Singapore	1,605	4,415	5,137	12,479	6,529	32.39584
Japan	1,340	1,795	2,019	1,818	4,237	25.88985
Netherlands	1,700	1,157	2,154	2,330	3,234	13.7256
U.S.A.	478	617	1,981	4,124	2,138	34.93231
United Kingdom	1,022	111	1,891	842	1,301	4.945853
Germany	467	650	942	927	845	12.59211
U.A.E.	173	239	327	961	645	30.10762
Switzerland	268	356	292	195	502	13.37408
France	547	229	347	392	487	-2.2969
South Korea	224	189	138	241	466	15.77841
Italy	63	185	167	279	364	42.02087
Cyprus	415	546	737	488	282	-7.43641
Spain	348	181	401	141	213	-9.35161
British Virgin Islands	3	0	30	203	212	134.3381
China	148	121	505	461	198	5.993857
Belgium	33	66	47	57	172	39.12427
Others	1,394	1,501	1,754	2,677	1,109	-4.47132

(Source: Reserve Bank of India, Annual Reports)

According to the above table analysis it reveals that 14 countries showed positive CAGR in terms of FDI flows and they are Mauritius, Singapore, Japan, Netherlands, USA, UK, Germany, UAE, Switzerland, South Korea, Italy, British Virgin Islands, China, Belgium and on the other hand counties like France, Cyprus, Spain and others have witnessed with Negative CAGR.

Table II reveals the total amount of FDI inflows in India during 2012-2017. The Table clearly shows that total amount of FDI has been increased from 18286 US million \$ to 36068 US million \$ in year 2015-16 which is almost 97.24% increase from the year 2012-13. This increase witnessed the effect of

liberal economic reforms by Govt. in Sept 2014 onwards adopted to attract Foreign Direct Investment

Table II Country wise Share of Foreign Direct Investment Flows to India

Country /Period	2012-13	2013-14	2014-15	2015-16	2016-17
1	2	3	4	5	6
(US \$ million)					
Mauritius	8,059 (44.07)	3,695 (23.01)	5,878 (23.75)	7,452 (20.66)	13,383 (36.85)
Singapore	1,605 (8.77)	4,415 (27.50)	5,137 (20.75)	12,479 (34.59)	6,529 (17.97)
Japan	1,340 (7.32)	1,795 (11.18)	2,019 (8.15)	1,818 (5.04)	4,237 (11.66)
Netherlands	1,700 (9.29)	1,157 (7.20)	2,154 (8.70)	2,330 (6.46)	3,234 (8.90)
U.S.A.	478 (2.61)	617 (3.84)	1,981 (8.0)	4,124 (11.43)	2,138 (5.88)
United Kingdom	1,022 (5.58)	111 (0.69)	1,891 (7.64)	842 (2.33)	1,301 (3.58)
Germany	467 (2.55)	650 (4.04)	942 (3.80)	927 (2.57)	845 (2.32)
U.A.E.	173 (.94)	239 (1.48)	327 (1.32)	961 (2.66)	645 (1.77)
Switzerland	268 (1.46)	356 (2.21)	292 (1.17)	195 (.54)	502 (1.38)
France	547 (2.99)	229 (1.42)	347 (1.40)	392 (1.08)	487 (1.34)
South Korea	224 (1.22)	189 (1.17)	138 (.55)	241 (.66)	466 (1.28)
Italy	63 (.34)	185 (1.15)	167 (.67)	279 (.77)	364 (1.00)
Cyprus	415 (2.26)	546 (3.40)	737 (2.97)	488 (1.35)	282 (.77)
Spain	348 (1.90)	181 (1.12)	401 (1.62)	141 (.39)	213 (.58)
British Virgin Islands	3 (.01)	0 (0)	30 (.12)	203 (.56)	212 (.58)
China	148 (.80)	121 (.75)	505 (2.04)	461 (1.27)	198 (.54)
Belgium	33(.18)	66(.41)	47(.18)	57(.15)	172(.47)
Others	1,394 (7.62)	1,501 (9.34)	1,754 (7.08)	2,677 (7.42)	1,109 (3.05)
Total FDI	18286 (100)	16054 (100)	24748 (100)	36068 (100)	36317 (100)

(Source: Reserve Bank of India, Annual Reports)

From the year 2012-17 the maximum time highest share of FDI has been maintained by Mauritius except in year 2013-14, 2015-16 and Lowest Share has been maintained by British Virgin Islands. During the study period of 5 years Singapore contributed highest share of FDI inflows in the year

2013-14 and 2015-16 contributing 27.75% and 34.59% of total FDI. In the year 2012-13 Netherland enjoyed the second place in FDI attraction by receiving 9.29%. Third place is occupied by Singapore by attracting 8.77% of total FDI in the year 2013-14 and 2016-17. Japan enjoyed the third place in FDI attraction receiving 11.18% and 11.66% respectively. USA occupied third place in the year 2015-16 by contributing 11.43% of total FDI.

Table III Sector Wise Inflow of Foreign Direct Investment

Country/Period	2012-13	2013-14	2014-15	2015-16	2016-17	CAGR%
1	2	3		5	6	7
(US \$ million)						
Manufacturing	6,528	6,381	9,613	8,439	11,972	12.89568
Communication Services	92	1,256	1,075	2,638	5,876	129.646
Financial Services	2,760	1,026	3,075	3,547	3,732	6.220052
Retail & Wholesale Trade	551	1,139	2,551	3,998	2,771	38.13285
Business Services	643	521	680	3,031	2,684	33.08046
Computer Services	247	934	2,154	4w,319	1,937	50.96857
Miscellaneous Services	552	941	586	1,022	1,816	26.89232
Electricity and other Energy Generation, Distribution & Transmission	1,653	1,284	1,284	1,364	1,722	0.821
Construction	1,319	1,276	1,640	4,141	1,564	3.466174
Transport	213	311	482	1,363	891	33.13726
Restaurants and Hotels	3,129	361	686	889	430	-32.7623
Education, Research & Development	150	107	131	394	205	6.446778
Mining	69	24	129	596	141	15.36498
Real Estate Activities	197	201	202	112	105	-11.8252
Trading	140	0	228	0	0	-100
Others	43	292	232	215	470	61.33399

(Source: Reserve Bank of India, Annual Report)

Table III above shows the top sectors attracting highest rate of FDI from 2012-17 and the data has

been examined by using compound Annual Growth Rate. It is observed that CAGR of FDI ranged between -100% to 129.64%. Restaurant & Hotels, Real estate activities & Trading activities observed negative CAGR. The above table clearly indicate that there was highest flow of FDI in communication services and lowest in case of Trading Industry observed with a Compound Annual Growth Rate of 129.64% and -100% respectively.

Table IV Sector -Wise Share of Foreign Direct Investment Flows to India

Country /Period	2012-13	2013-14	2014-15	2015-16	2016-17
1	2	3		5	6
(US \$ million)					
Manufacturing	6,528 (35.69)	6,381 (39.74)	9,613 (38.84)	8,439 (23.39)	11,972 (32.96)
Communication Services	92 (.50)	1,256 (7.82)	1,075 (4.34)	2,638 (7.31)	5,876 (16.17)
Financial Services	2,760 (15.09)	1,026 (6.39)	3,075 (12.42)	3,547 (9.83)	3,732 (10.27)
Retail & Wholesale Trade	551 (3.01)	1,139 (7.09)	2,551 (10.30)	3,998 (11.08)	2,771 (7.63)
Business Services	643 (3.51)	521 (3.24)	680 (2.74)	3,031 (8.40)	2,684 (7.39)
Computer Services	247 (1.35)	934 (5.81)	2,154 (8.70)	4,319 (11.97)	1,937 (5.33)
Miscellaneous Services	552 (3.01)	941 (5.86)	586 (2.36)	1,022 (2.83)	1,816 (5.00)
Electricity and other Energy Generation, Distribution & Transmission	1,653 (9.03)	1,284 (7.99)	1,284 (5.18)	1,364 (3.78)	1,722 (4.74)
Construction	1,319 (7.21)	1,276 (7.94)	1,640 (6.62)	4,141 (11.48)	1,564 (4.30)
Transport	213 (1.16)	311 (1.93)	482 (1.94)	1,363 (3.77)	891 (2.45)
Restaurants and Hotels	3,129 (17.11)	361 (2.24)	686 (2.77)	889 (2.46)	430 (1.18)
Education, Research & Development	150 (.82)	107 (.66)	131 (.52)	394 (1.09)	205 (.56)
Mining	69 (.37)	24 (.14)	129 (.52)	596 (1.65)	141 (.38)
Real Estate Activities	197 (1.07)	201 (1.25)	202 (.81)	112 (.31)	105 (.28)
Trading	140(.76)	0(0)	228(.92)	0(0)	0(0)
Others	43 (.23)	292 (1.81)	232 (.930)	215 (.59)	470 (1.29)
Total FDI	18286 (100)	16054 (100)	24748 (100)	36068 (100)	36317 (100)

(Source: Reserve Bank of India, Annual Reports)

Table IV reveals the Sector Wise Share of Foreign Direct Investment Flows of the major industries used in the analysis for the period from 2012-2017. It reveals that FDI inflows to manufacture industry, Communication Services, Financial Services, Retail and Wholesale Trade & Business Services ranges from 3% to 40%. During this period FDI inflow to sectors namely Business Services, Computer Services, Miscellaneous Services, Electricity and other Energy Generation, Construction, Transport, Restaurants & Hotels accounts for 1% to 10% only. While in the other sectors like Education Research & Development, Mining, Real Estate activities, Trading & other the share of FDI is less than 1%. It shows that FDI inflows have increased constantly within a duration of 5 years in case of manufacturing sector except in year 2015-16. Ease of doing business measures & liberal economic restructuring were conceded out in manufacturing activities but as a group service sector enjoyed improved position in attracting FDI share, especially in case of communication services where an increasing trend has been observed. Trend of FDI in manufacturing sector was highest with 39.74% in the year 2013-14 and FDI in trading industry was lowest with 0% in the year 2013-14, 2015-16, 2016-17 which is quite poor.

Conclusion

FDI has a significant role in the economic growth and development of a country. Prolonged economic growth and development of Indian economy can be conquered by means of creating jobs opportunities & expansion of existing manufacturing industries, which is feasible only through inflow of FDI to various sectors. Present study reveals that all sectors are not equally attractive for foreign investors for making investment. As per study FDI equity inflows in the last five financial years rose by about 97 per cent to \$36.31 million as against \$18.28 million during previous five fiscal year (2012-17). The overall manufacturing sectors have observed a growth of 83 per cent in comparison to previous five financial years (from \$6.52 million to \$11.97 million). The paper concludes that the country wise CAGR ranges from -.9035 to 134.33. The highest FDI annual compound growth is 134.33% from British Virgin Island. Lowest CAGR is witnessed from Spain was -.9035. From the year 2012-17 the maximum time highest share of FDI has been sustained by Mauritius except in year 2013-14, 2015-16 and lowest Share has been maintained by British Virgin Islands. Highest flow of FDI in communication services and lowest in case of Trading Industry perceived with a Compound Annual Growth Rate of 129.64% and -100% respectively. Trend of FDI in manufacturing sector

was highest with 39.74% in the year 2013-14 and FDI in trading industry was lowest with 0% in the year 2013-14, 2015-16, 2016-17 which is quite poor. Foreign investments are decisive for revamping its infrastructure sector such as ports, airports and highways to lift development of the country. Government should design the FDI policy in such a way where FDI inflows can be employed as means of augmenting domestic production, savings and exports through the equitable dispersal among various sectors. It will help in strengthening rupee value against other global currencies, especially the US dollar and to improve the country's balance of payments situation.

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