



Evaluating the Periodic Flows through FDI and FPI Route to Understand the Significance of Foreign Funds Flow into India

Dr. Bhavesh A. Prabhakar¹, Dr. Gurudutta P. Japee²

¹Independent Researcher, Ph.D., S.D. School of Commerce, Gujarat University, Ahmedabad 380009, Gujarat, India.

²Associate Professor, S.D. School of Commerce, Gujarat University, Ahmedabad 380009, Gujarat, India.

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ABSTRACT

Foreign investment inflows refer to the funds that flow into a country from foreign entities, such as foreign individuals, businesses, or governments. The main objective of this research study is to understand the significance of foreign investments flow into India. Secondary data were used to this research study, data were collected from RBI bulletin. The study covered a period of 10 years, from 2013-2014 to 2022-2023. Net foreign direct investment has been positive in most years, indicating that more capital is flowing into India than out. Equity capital has been a major component of net FDI, contributing significantly to the overall investment. The net portfolio investment has shown variations. Peaks and troughs may be influenced by global economic events or changes in the investment climate. The overall foreign investment inflows, including both net FDI and portfolio investment, show variations over the years, with some years experiencing substantial growth. The foreign investment landscape in India is characterized by annual variations influenced by economic, geopolitical, and global factors. It is ostensibly observed that the FDI and FPI funds flows into India are incredibly significant for India in terms of growth capital needs.

Key Words: Net Foreign Direct Investment, Net Portfolio Investment, Foreign Institutional Investors, Foreign Investment Inflows.

1. Introduction

1.1. Foreign Direct Investment (FDI)

FDI refers to investments made by foreign entities directly into the productive assets of a country, such as factories, infrastructure, and businesses. It is a long-term investment and is considered more stable compared to other forms of foreign investment. Foreign investment of 10 % or more through eligible instruments made in an Indian listed company would be treated as FDI.

1.1.1. Components of Foreign Direct Investment

Equity Capital: Represents the investment in the form of equity or ownership in Indian businesses.

Reinvested Earnings: Profits earned by foreign investors in India and reinvested back into their businesses.

Other Capital: Other forms of investment capital apart from equity and reinvested earnings.

Repatriation/Disinvestment: The withdrawal of funds by foreign investors or disinvestment from existing ventures.

1.2. Net Foreign Direct Investment

Net FDI represents the actual inflow of foreign investment into a country after accounting for the outward investment by the country itself. A positive value signifies that more foreign direct investment is flowing into the country than the country is investing abroad. This is generally seen as positive for economic growth and development.

1.3. Foreign Portfolio Investment

Foreign portfolio investment (FPI) consists of securities and other financial assets held by investors in another country. It does not provide the investor with direct ownership of a company's assets and is relatively liquid depending on the volatility of the market. FPI holdings can include stocks, ADRs, GDRs, bonds, mutual funds, and exchange traded funds.

1.3.1. GDRs/ADRs

ADR stands for American Depositary Receipt, and GDR stands for Global Depositary Receipt. Both are financial instruments that represent ownership in a foreign company's stock.

ADRs are specifically used in the United States. They represent shares of a foreign company but trade on U.S. stock exchanges. A U.S. depositary bank issues ADRs, holds the foreign shares underlying them, and facilitates trading on U.S. markets.

GDRs, on the other hand, are a similar concept but are traded globally. They are issued by a depositary bank outside the United States and can be listed on multiple international exchanges. GDRs allow investors worldwide to invest in a foreign company without the need to buy shares directly on the company's home exchange.

1.3.2. Foreign Institutional Investors (FIIs)

FIIs typically refer to foreign institutional investors, which are entities from outside a country that invest in financial assets within that country. They can include hedge funds, mutual funds, pension funds, and other investment vehicles. FIIs play a significant role in global financial markets, contributing to liquidity and influencing asset prices.

2. Foreign Investment Inflows

Foreign investment inflows refer to the funds that flow into a country from foreign entities, such as foreign individuals, businesses, or governments. These investments can take various forms, including foreign direct investment (FDI), portfolio investment, and other financial transactions. Foreign investment inflows can have significant impacts on the recipient country's economy. Positive effects may include economic growth, job creation, technology transfer, and improved infrastructure. However, there can also be challenges, such as concerns about the control of domestic assets by foreign entities, potential for exploitation, and vulnerability to global economic conditions.

Governments often closely monitor and regulate foreign investment to ensure that it aligns with national interests and economic development goals. They may enact policies to attract foreign investment while also implementing measures to safeguard key industries and national security.

3. Research Methodology

Secondary data were used to this research study, data were collected from RBI bulletin. The study covered a period of 10 years, from 2013-2014 to 2022-2023. This study presents data on overall foreign investment inflows into India, broken down into direct investment, foreign direct investment (FDI) by India in other countries, net FDI, net portfolio investment.

3.1. Objectives of the Study

- To understand net foreign direct investment to India.
- To know net portfolio investment to India.
- To understand the significance of foreign funds flow into Indian through FDI and FPI route.
- To study foreign investment inflows to India.

3.2. Used Equation and Formula

This study has been done by analysing and interpreting data in following ways.

$$(1) \text{ Direct Investment to India} = \text{Gross Inflows/Gross Investments} - \text{Repatriation/Disinvestment}$$

$$(\text{Gross Inflows/Gross Investments} = \text{Equity} + \text{Reinvested Earnings} + \text{Other Capital})$$

$$(\text{Repatriation/Disinvestment} = \text{Equity} + \text{Other Capital})$$

$$(2) \text{ Foreign Direct Investment by India} = \text{Equity Capital} + \text{Reinvested Earnings} + \text{Other Capital} - \text{Repatriation/ Disinvestment}$$

$$(3) \text{ Net Foreign Direct Investment} = \text{Direct Investment to India} - \text{Foreign Direct Investment by India}$$

$$(4) \text{ Net Portfolio Investment} = \text{GDRs/ADRs} + \text{FIIs} - \text{Portfolio Investment by India}$$

$$(5) \text{ Foreign Investment Inflows} = \text{Net Foreign Direct Investment} + \text{Net Portfolio Investment}$$

4. Data Exploration

Table No.1. Direct Investment to India (US\$ Million)

Year	Gross Inflows/Gross Investments (A)				Repatriation/Disinvestment (B)			Direct Investment to India (A-B)
	Equity	Reinvested Earnings	Other Capital	Total	Equity	Other Capital	Total	
2022-23	47600	19105	4650	71355	27094	2255	29349	42006
2021-22	59684	19347	5805	84835	27189	1416	28605	56231
2020-21	61088	16935	3950	81973	26983	63	27046	54927
2019-20	51734	14175	8482	74390	18212	173	18384	56006
2018-19	45055	13672	3274	62001	18452	247	18699	43302
2017-18	45521	12542	2911	60974	21325	219	21544	39431
2016-17	44701	12343	3176	60220	17318	687	18005	42215
2015-16	41112	10413	4034	55559	10524	128	10652	44907
2014-15	31885	8983	3423	44291	9612	252	9864	34427
2013-14	25274	8978	1794	36046	4786	498	5284	30762
Average	45365.4	13649.3	4149.9	63164.4	18149.5	593.8	18743.2	44421.4

Source: https://rbi.org.in/Scripts/BS_ViewBulletin.aspx

The table no.1. showing direct investment to India in (US\$ Million) for ten years (2013-14 to 2022-23). The table includes gross inflows/gross investments, repatriation/disinvestment, and the resulting direct investment to India in terms of equity, reinvested earnings, other capital. additionally, there is an average for each category. Gross Inflows/Gross Investments (A): There is a generally increasing trend in gross inflows, peaking in 2021-22 at \$84,835 million, indicating growing interest from foreign investors in India. The year-to-year variations suggest sensitivity to economic conditions or policy changes. The average gross inflows/gross investments are around \$63,164.4 million, indicating a consistent flow of investments into India annually.

Repatriation/Disinvestment (B): This value varies across years, with the highest repatriation occurring in 2019-20 at \$18,384 million. This reflects the periods when foreign investors withdrew funds or divested from their investments in India. The average repatriation /disinvestment is approximately \$13.6 billion, reflecting the average amount withdrawn or divested each year.

Direct Investment to India (A-B): It shows fluctuations, reaching the highest value in 2020-21 at \$56,231 million. This column represents the amount of foreign investment that remains in India after considering repatriation or disinvestment. The average direct investment to India is around \$44,421.4 billion, providing an average of the retained investments annually.

Composition of Direct Investment (Equity, Reinvested Earnings, Other Capital): Equity is a dominant component of total direct investment, signifying significant interest from foreign investors in ownership stakes. reinvested earnings and other capital contribute to the investment mix but to a lesser extent. The fluctuations suggest that foreign direct investment is influenced by various factors, including global economic conditions, regulatory changes, or geopolitical events. The overall trend indicates a positive flow of foreign direct investment into India, with periods of increased inflows and net retained investments.

In summary, the table depicts a dynamic and evolving scenario of foreign direct investment in India, with a positive overall trend. The variations in repatriation and investment highlight the complexity of factors influencing the investment landscape over the specified period.

Table No.2. Net Foreign Direct Investment (US\$ Million)

Year	Direct Investment to India (A)	Foreign Direct Investment by India (B)					Net Foreign Direct Investment (A-B)
		Equity Capital(p)	Reinvested Earnings(q)	Other Capital(r)	Repatriation/ Disinvestment(s)	Total (p+q+r-s)	
2022-23	42006	8771	4412	4714	3877	14020	27986
2021-22	56231	10061	3379	7604	3400	17644	38587
2020-21	54927	5583	3013	6688	4313	10972	43955
2019-20	56006	7572	3151	5674	3403	12993	43013

2018-19	43302	7201	3032	5202	2845	12590	30712
2017-18	39431	5254	2853	4525	3487	9144	30286
2016-17	42215	9792	2925	4450	10564	6603	35612
2015-16	44907	6486	3337	3382	4320	8886	36021
2014-15	34427	4075	1092	3280	6649	1799	32628
2013-14	30762	12420	1167	3148	7535	9199	21564
Average	44421.4	7721.5	2836.1	4866.7	5039.3	10385	34036.4

Source: https://rbi.org.in/Scripts/BS_ViewBulletin.aspx

The table no.2. provides information on net foreign direct investment in millions of USD for the years spanning from 2013-14 to 2022-23. The highest Net FDI occurred in 2020-21, reaching 43,955 million US dollars. The lowest Net FDI is observed in 2013-14, with a value of 21,564 million US dollars. The highest direct investment to India is recorded in 2021-22 (56,231 million US dollars), while the lowest is in 2013-14 (30,762 million US dollars). Overall, there is an increasing trend in direct investment to India over the years. The highest foreign direct investment by India is in 2021-22 (17,644 million US dollars), and the lowest is in 2014-15 (1799 million US dollars). There is a general fluctuating trend in foreign direct investment by India, with a significant rise in 2021-22.

In 2022-23, there is a noticeable decrease in both direct investment to India and foreign direct investment by India compared to the previous year. However, the Net FDI remains positive at \$27,986 million, indicating a substantial net gain despite the reduction in both inflow and outflow.

The net foreign direct investment indicates the overall trend of foreign capital inflow and outflow. Notably, there has been a positive net FDI in all years, implying that more foreign investment has come into India than the investment flowing out.

In summary, the table illustrates the dynamics of net foreign direct investment over a ten-year period, showing variations in both inflow and outflow of FDI. The highest and lowest values, along with the average, provide insights into the overall trends in foreign direct investment for the given years.

Year	Net Foreign Direct Investment (A)	Net Portfolio Investment (B)				Foreign Investment Inflows (A+B)
		GDRs/ADRs (p)	FII's (q)	Portfolio Investment by India (r)	Total (p+q-r)	
2022-23	27986	-	-4828	324	-5152	22834
2021-22	38587	-	-14071	2706	-16777	21809
2020-21	43955	-	38725	2589	36137	80092
2019-20	43013	-	552	-851	1403	44417
2018-19	30712	1820	-2225	213	-618	30094
2017-18	30286	-	22165	50	22115	52401
2016-17	35612	-	7766	154	7612	43224
2015-16	36021	373	-4016	487	-4130	31891
2014-15	32628	-	40923	-11	40934	73562
2013-14	21564	20	5009	207	4822	26385
Average	34036.4	737.67	10446.22	653.22	10052.89	42670.9

Source: https://rbi.org.in/Scripts/BS_ViewBulletin.aspx

The table presents data on foreign investment inflows in millions of US dollars for India, categorized into net foreign direct investment and net portfolio investment.

Net foreign direct investment represents the net inflow of foreign direct investment into India. The values indicate positive trends over the years, with the highest value in 2020-21 at 43,955 million US dollars. Net portfolio investment represents the net inflow of portfolio investments, including investments in stocks and bonds. The values show variability, with some years having positive net portfolio investment and others showing negative values. Foreign investment inflows are the sum of net foreign direct investment and net portfolio investment. The data suggests an overall fluctuating trend in foreign investment inflows, with the highest value in 2020-21 at 80,092 million US dollars.

The detailed breakdown of foreign investment inflows reveals the contributions of GDRs/ADRs, FIIs, and Portfolio Investment by India. GDRs/ADRs exhibit fluctuations, with negative values in some years, indicating a reduction in this component. FIIs contribute positively to foreign investment inflows, with an average of 10,446.22 million US dollars. Portfolio Investment by India shows variations, with negative values in some years, indicating divestment. Variations in foreign investment inflows highlight the dynamic nature of global investment patterns and investor sentiments.

Table No.4. Overall Foreign Investment Inflows (US\$ Million)					
Year	Direct Investment to India (A)	Foreign Direct Investment by India (B)	Net Foreign Direct Investment [C=(A-B)]	Net Portfolio Investment (D)	Foreign Investment Inflows (C+D)
2022-23	42006	14020	27986	-5152	22834
2021-22	56231	17644	38587	-16777	21809
2020-21	54927	10972	43955	36137	80092
2019-20	56006	12993	43013	1403	44417
2018-19	43302	12590	30712	-618	30094
2017-18	39431	9144	30286	22115	52401
2016-17	42215	6603	35612	7612	43224
2015-16	44907	8886	36021	-4130	31891
2014-15	34427	1799	32628	40934	73562
2013-14	30762	9199	21564	4822	26385
Average	44421.4	10385	34036.4	10052.89	42670.9

Source: https://rbi.org.in/Scripts/BS_ViewBulletin.aspx

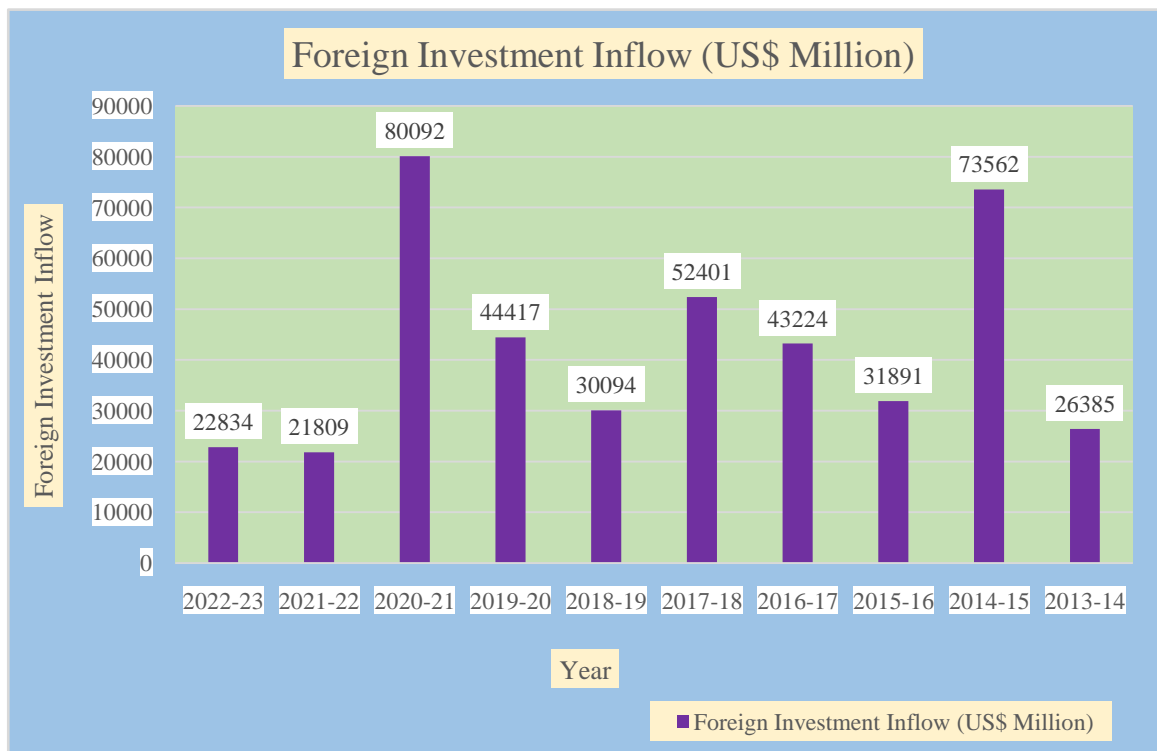


Chart No.1. Foreign Investment Inflow (US\$ Million)

Table no.4. presents data on overall foreign investment inflows into India over a period of ten years, the data reflects fluctuating patterns in foreign investment over the years.

2022-23: Witnessed a decline in direct investment to India and foreign direct investment by India, leading to a decrease in net foreign direct investment. Negative net portfolio investment contributed to a reduction in overall foreign investment inflows compared to the previous year. 2020-21: Notable for the highest values in direct investment to India and foreign investment inflows, driven primarily by a surge in net portfolio investment. 2014-15: Stands out for the significant positive value in net portfolio investment, contributing to a substantial increase in foreign investment inflows.

The data suggests that while there are fluctuations in direct investment, there is a consistent increase in outward FDI by India. Net portfolio investment represents the net flow of funds into Indian financial markets. Negative values indicate a net outflow. The highest outflow occurred in 2021-22. The foreign investment inflows reached a peak in 2020-21 at \$80,092 million. The average values indicate a general positive trend in foreign investment over the years.

The data illustrates the dynamic nature of foreign investment in India, influenced by various economic factors and global trends. Policymakers and investors can use this information to assess the attractiveness of the Indian market and make informed decisions based on the observed trends over the past decade.

5. General Observations

Gross Inflows have seen variations, peaking in 2020-21. Repatriation or disinvestment has also varied, impacting the direct investment to India. Net FDI has been positive in most years, indicating that more capital is flowing into India than out. Equity capital has been a major component of net FDI, contributing significantly to the overall investment. Net FDI is just one part of the overall foreign investment inflows, which also include net portfolio investments. The net portfolio investment has shown variations, with 2022-23 recording negative figures. Foreign Institutional Investments (FIIs) and Global Depository Receipts (GDRs/ADRs) play a crucial role in shaping the overall foreign investment scenario.

Investments are sensitive to annual economic conditions, reflected in the fluctuating values. Equity is a dominant force in both direct and foreign direct investments. Peaks and troughs may be influenced by global economic events or changes in the investment climate. Net portfolio investment, both positive and negative, significantly affects overall foreign investment inflows. Despite yearly fluctuations, averages provide stability, suggesting an overall positive trend in foreign investments.

In conclusion, the data suggests that while there are yearly fluctuations, foreign direct investment in India remains resilient, with equity being a key driver. The impact of global events and portfolio investments by India contributes significantly to the overall foreign investment scenario.

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