

# A STUDY ON FOREIGN DIRECT INVESTMENT IN INDIA

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## ABSTARCT

Foreign direct investment (FDI) is a is a major source of non-debt financial resource for the economic development. The paradigm shit in the foreign and trade policies have attracted foreign investments into India in the past two decades. FDI has enabled India to achieve a certain degree of financial stability, growth and development. Foreign direct investment is done for many reasons including to take advantage of cheaper wages in the country special investment privileges such as tax exemptions offered by the country as an incentive to gain tariff-free access to the markets of the country or the region. Foreign direct investment is a passive investment in the securities of another country such as stocks and bonds and also known as portfolio investment. FDI explains about the net inflows of investment to acquire a management interest and also management control and profit sharing as a part of the national accounts of a country. FDI is now widely perceived as an important resource for expediting the industrial development of developing countries especially India because of the fact that it flows as a bundle of capital, technology, skills and sometimes even market access. Hence the present study is such an attempt to identify and analyze the FDI on economic growth of India.

**Keywords:**Foreign direct investment (FDI), Economic growth, Industrial development, Sector - wise, Country - wise, Correlation.

## Introduction

Foreign direct investment (FDI) has become an integral part of national development strategies globally. It's the need of the hour for the development of the country especially in the areas of domestic capital, productivity and employment; it is an indispensable tool for initiating economic growth for countries. FDI in India has contributed to the overall growth of the economy effectively. FDI inflow has an impact on country's transfer technology, improving infrastructure, thus makes a competitive business environment. India needs substantial foreign inflows to achieve the required investment to accelerate economic growth and development. FDI acts as a catalyst for domestic industrial development. Moreover, it helps in speeding up economic activity.

Foreign direct investment (FDI) is a major 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. Foreign investments are welcomed for achieving technical know-how and

generating employment. The present favorable policy regime and healthy business environment have ensured the continuous flow of foreign investments. The government has taken many initiatives in realigning the FDI norms across all major sectors.

Foreign Direct Investment (FDI) is a process which enables one country to directly invest their funds in another country enable to exercise control over the investment in terms of production, management, distribution, effective decision making, employment etc. Foreign investment is a means of making foreign resources available for the development of the other country. The reasons are many, including to take advantage of cheaper wages, special investment privileges (e.g. tax exemptions) offered by the country.

Foreign Direct Investment under the Industrial Policy 1991 and thereafter under different Foreign Trade Policies is being allowed in different sectors of the economy in different proportion under either the Government route or Automatic Route. The Industrial policy 1991 had crafted a trajectory of change whereby every sectors of Indian economy at one point of time or the other would be embraced by liberalization, privatization and globalization.

FDI can create economic growth through the creation of physical assets in the economy and comparative advantages which are mentioned as follows:

- New technology transfers
- Capital formation
- Additional employment can occur in the supply chain if local suppliers are used.
- Human resources development
- Employment creation
- Reduction in overall cost of production
- Tax benefits.
- Expanded international trade
- Removes Balance of Payments constraint

According to Department of Industrial Policy and Promotion (DIPP), the total FDI investments in India April-June 2018 stood at US\$ 12.75 billion, indicating the government's effort to improve and ease of doing business by relaxing FDI norms for better results. Trade review released by The Commonwealth in 2018 has remarked that India has emerged as the top recipient of Greenfield FDI Inflows from the Commonwealth.

### **Government Initiatives**

- Government of India is planning to consider 100 per cent FDI in Insurance intermediaries in India to give a boost to the sector and attracting more funds.

- In January 2018, Government of India allowed foreign airlines to invest in Air India up to 49 per cent with government approval. The investment cannot exceed 49 per cent directly or indirectly.
- No government approval will be required for FDI up to an extent of 100 per cent in Real Estate Broking Services.
- In September 2017, the Government of India asked the states to focus on strengthening single window clearance system for fast-tracking approval processes, in order to increase Japanese investments in India.
- The Ministry of Commerce and Industry, Government of India has eased the approval mechanism for foreign direct investment (FDI) proposals by doing away with the approval of Department of Revenue and mandating clearance of all proposals requiring approval within 10 weeks after the receipt of application.
- The Government of India is in talks with stakeholders to further ease foreign direct investment (FDI) in defense under the automatic route to 51 per cent from the current 49 per cent, in order to give a boost to the Make in India initiative and to generate employment.
- In January 2018, Government of India allowed 100 per cent FDI in single brand retail through automatic route.

FDI has enabled India to achieve a certain degree of financial stability, growth and development. India is one of the primary destinations of private equity and venture capital funding through the FDI route. As high as 60 per cent of the FDI that flows into India is through the PE route. FDI boosts the country's economy making it a globally competitive platform providing access to high quality goods and services. Several international surveys place India among the top three most sought after destinations for foreign direct investment and growth. Indian national government announced a number of reforms designed to encourage FDI and present a favorable scenario for investors. FDI investments are permitted through financial collaborations, through private equity or preferential allotments, by way of capital markets through Euro issues, and in joint ventures. FDI is not permitted in the arms, nuclear, railway, coal & lignite or mining industries.

## Review of Literature

**RBI (2002)**<sup>1</sup> informs on the performance of FDI companies using balance sheet data after compilation of over 300 companies to assess their financial performance is put to understand the performance of FDI companies with non-FDI companies on their relative efficiency. During 1992-93 to 1999-2000, sales growth of public limited companies was lower than non-FDI companies in four years. However, in case of private limited FDI companies, the sales growth was higher in all the years, except in 1999-2000. The insight derived from the theoretical understandings, empirical literature and performance of FDI companies in India give mixed picture. It is observed that return on Equity (ROE), which essentially

decides the investment was higher in case of FDI companies than the non-FDI companies, irrespective of whether they are public limited or private limited companies.

**Nagaraj (2003)**<sup>2</sup>examined the trends and issues of Foreign Direct Investment in India in the 1990s. He documented the trends in foreign direct investment in India in the 1990s, and compares them with those in China. Noting the data limitations, the study raises some issues on the effects of the recent investments on the domestic economy. Based on the analytical discussion and comparative experience, the study concludes by suggesting a realistic foreign investment policy. Ending its long held restrictive foreign investment policy in 1991, India sought to compete with the successful Asian economies to get a greater share of the world's FDI.

**Mohammed Nizamuddin (2013)**<sup>3</sup>analyzed the role of FDI in employment generation in Indian retail sector. He assumed FDI as an independent variable whereas employment as dependent variable. The study is exploratory and quantitative in nature. The secondary information is extensively used for analysis purpose. Further the secondary data pertaining to the study is originated from various sources like National Sample Survey Organization (NSSO), SIA reports, newspapers, and websites of Reserve Bank of India (RBI), Department of Industrial Policy and Promotion (DIPP), Economic Survey 2010-11, 2011-12 and a number of leading journals. In order to compare the FDI inflow over the period under study, the percentage method and simple statistics were used. By using time series data from 2001-02 to 2009-10 and applying ordinary least square (OLS) method he found that FDI have negative impact on employment generation in retail sector in India because the result shows that 10% increase in FDI inflow in retail sector will decrease approximately 1% jobs.

**Boopath (2013)**<sup>4</sup>revealed that the Press Council of India has commented on synergic alliance“ or equity participation by way of Foreign Direct Investment. The council opined that Foreign Direct Investment should be allowed to break or halt the growing monopoly of a few media giants in India who offer uneven playground and unhealthy competition to small and medium papers.

**Bhasin& Khandelwal (2014)**<sup>5</sup>Further many of the virtues exhibited by the manufacturing sector such as high productivity and international and domestic convergence in productivity are shared by some service subsectors such as Finance, Insurance and Real Estate. Though, in the case of India, these subsectors also share manufacturing's flaws. This raises further difficult policy questions for India and other developing countries in similar situations.

## Statement of the Problem

Liberalization and the globalization of the Indian markets have attracted foreign investments into India in the past two decades. But the flow of foreign investments into India is found to be fluctuating highly. FDI and FII are predominant and vital factors influencing the economic development of a host nation. Initiatives like Make in India, favorable changes in the policy regimes and robust business environment has caused an upsurge in the foreign capital inflows. In Indian context the growth of services sector has been mainly linked with the liberalization and reforms of nineties. After independence India's GDP grew at average decadal growth rate of less than 4 percent. Even today for many services there are no nodal ministry like construction; while for services like transport and energy there are multiple ministries with conflicting interests. For example, there are as many as 13 regulatory bodies for higher education and each of them functions in isolation. Therefore; against this backdrop, the present study is an attempt to identify and analyze the FDI on economic growth of India.

## Objectives of the Study

- To analyze the country wise & sector wise Foreign Direct Investment flows in India
- To evaluate Foreign Direct Investment Flows Contribution % to GDP
- To find out the relationship between Foreign Direct Investment and GDP

## Hypothesis of the Study

H<sub>0</sub>: There is no significance relation between Foreign Direct Investment and GDP.

H<sub>1</sub>: There is significance relation between Foreign Direct Investment and GDP.

## Scope of the study

The present study has focused on FDI in Sector wise and Country wise. The study has examined the FDI inflows and contribution to India.

## Methodology of the study

### Collection of Data

The study is mainly based on secondary data. The secondary data of this study were collected from the various journals and websites such as RBI bulletin, DIPP (Department of Industrial Policy and Promotion), etc., the study is developed to understand the contribution of FDI in India.

### Tools used for analysis

The secondary data have been analyzed by using the statistical tools like percentage analysis and Pearson correlation.

### Period of the Study

The present study covers the period of 5 years from 2013-14 to 2017-18.

## Analysis &amp; Interpretation

Table 1 Foreign Direct Investment Flows to India: Country-

Foreign Direct Investment Flows to India: Country-wise							
(US\$ million)							
Country/Year	2013-14	2014-15	2015-16	2016-17	2017-18	Total	%
1	2	3	4	5	6	Total	%
Mauritius	3,695	5,878	7,452	13,383	13,415	43,823	29.11
Singapore	4,415	5,137	12,479	6,529	9,273	37,833	25.13
Netherlands	1,157	2,154	2,330	3,234	2,677	11,552	7.67
USA	617	1,981	4,124	2,138	1,973	10,833	7.20
Japan	1,795	2,019	1,818	4,237	1,313	11,182	7.43
Cayman Islands	25	72	440	49	1,140	1,726	1.15
Germany	650	942	927	845	1,095	4,459	2.96
Hong Kong	85	325	344	134	1,044	1,932	1.28
United Kingdom	111	1,891	842	1,301	716	4,861	3.23
Switzerland	356	292	195	502	506	1,851	1.23
UAE	239	327	961	645	408	2,580	1.71
France	229	347	392	487	403	1,858	1.23
China	121	505	461	198	350	1,635	1.09
Italy	185	167	279	364	308	1,303	0.87
South Korea	189	138	241	466	293	1,327	0.88
Cyprus	546	737	488	282	290	2,343	1.56
Canada	11	153	52	32	274	522	0.35
Others	1,626	1,682	2,243	1,490	1,889	8,930	5.93
	16,054	24,750	36,072	36,321	37,373	150,550	100.00
year wise contribution (%)	10.66	16.44	23.96	24.12	24.82		

Wise

Source: RBI.

The above table depicts that the Country-wise Foreign Direct Investment Flows to India. It is observed that Mauritius and Singapore have contributed overall 29.11% and 25.13% respectively. Other countries in the above table exhibit less than 10% in the overall contribution.

Table 2 Foreign Direct Investment Flows to India: Sector-Wise

## Foreign Direct Investment Flows to India: Sector-wise

(US\$ million)

SECTOR	2013-14	2014-15	2015-16	2016-17	2017-18	Total	%
1	2	3	4	5	6		
Manufacturing	6,381	9,613	8,439	11,972	7,066	43,471	33.21
Retail & Wholesale Trade	1,139	2,551	3,998	2,771	4,478	14,937	11.41
Financial Services	1,026	3,075	3,547	3,732	4,070	15,450	11.80
Computer Services	934	2,154	4,319	1,937	3,173	12,517	9.56
Business services	521	680	3,031	2,684	3,005	9,921	7.58
Electricity and other energy Generation, Distribution & Transmission	1,284	1,284	1,364	1,722	1,870	7,524	5.75
Construction	1,276	1,640	4,141	1,564	1,281	9,902	7.56
Transport	311	482	1,363	891	1,267	4,314	3.30
Miscellaneous Services	941	586	1,022	1,816	835	5,200	3.97
Restaurants and Hotels	361	686	889	430	452	2,818	2.15
Real Estate Activities	201	202	112	105	405	1,025	0.78
Education, Research & Development	107	131	394	205	347	1,184	0.90
Mining	24	129	596	141	82	972	0.74
Trading	0	228	0	0	0	228	0.17
Others	293	232	215	470	226	1,436	1.10
TOTAL	14,801	23,676	33,434	30,445	28,563	130,899	100.00

Source: RBI.

The above table shows that the Sector wise Foreign Direct Investment Flows to India. It is seen that Manufacturing Sector has received 33.21%, Retail and Whole sale trade has contributed 11.41% and Financial Services sector has contributed 11.80% of the total contribution received. The Computer Service Sector has contributed 9.56%, though their annual receipts are showing an increased trend to that of 2016-2017.

Table 3 Foreign Direct Investment Flows Contribution % to GDP

Year	% FDI contribution	% of GDP	Contribution to FDI
2013-14	10.66	7.41	0.70
2014-15	16.44	8.16	0.50
2015-16	23.96	7.11	0.30
2016-17	24.12	6.68	0.28
2017-18	24.82	7.30	0.29

Source: RBI.

TABLE 4 CORRELATION

Year	% FDI contribution (x)	% of GDP (y)	(x)- ( $\bar{x}$ )	(Y)- ( $\bar{y}$ )	(x)- ( $\bar{x}$ )	(Y)- ( $\bar{y}$ )	((x)-( $\bar{x}$ )) <sup>2</sup>	((Y)-( $\bar{y}$ )) <sup>2</sup>
2013-14	10.66	7.41	-9.34	0.17	-1.59		87.24	0.03
2014-15	16.44	8.16	-3.56	0.98	-3.49		12.67	0.96

2015-16	23.96	7.11	3.96	-0.13	-0.51	15.68	0.02
2016-17	24.12	6.68	4.12	-0.56	-2.31	16.97	0.31
2017-18 (P)	24.82	7.30	4.82	0.06	0.29	23.23	0.00
( $\Sigma$ )	100.00	36.66			<b>-7.61</b>	<b>155.80</b>	<b>1.32</b>
( $\Sigma$ )/N=(5)=( $\bar{x}$ ) / ( $\bar{y}$ )	20.00	7.24					

Source: Calculated Data

### Pearson's Coefficient Of Correlation

$$r = \frac{\sum(x - \bar{x})(y - \bar{y})}{\sqrt{\sum(x - \bar{x})^2 \sum(y - \bar{y})^2}}$$

$$\frac{-7.61}{\sqrt{155.80 \times 1.32}}$$

$$-6.61$$

As a rule if the coefficient of correlation is between +1 and -1 the variables have relationship. In the above table the  $r = -6.61$  signifies that the variables are not dependent on each other. Therefore, the Null hypothesis is accepted. Hence, there is no significance relation between Foreign Direct Investment and GDP.

### Findings of the Study

- It is observed that Mauritius and Singapore have contributed overall 29.11% and 25.13% respectively.
- It is seen that Manufacturing Sector has received 33.21%, Retail and Whole sale trade has contributed 11.41% and Financial Services sector has contributed 11.80% of the total contribution received.
- The Computer Service Sector has contributed 9.56%, though their annual receipts are showing an increased trend to that of 2016-2017.
- There is no significance relation between Foreign Direct Investment and GDP.

### Suggestions

- The policy makers should design policies where foreign investment can be utilized as means of enhancing domestic production, savings, and exports; as medium of technological learning and technology diffusion and also in providing access to the external market.
- It is suggested that the government should push for the speedy improvement of infrastructure sector's requirements which are important for diversification of business activities.

- It is suggested that the government endeavor should be on the type and volume of FDI that will significantly boost domestic competitiveness, enhance skills, technological learning and invariably leading to both social and economic gains.

### Conclusion

Foreign Direct Investments plays a crucial role for an accelerated economic growth. In India, past the 1991 economic reforms, the regulatory environment in terms of FDI has been consistently eased to make it more and more investor-friendly and to supplement domestic capital, technology and skills. India has to offer economic opportunities which are more attractive than those of others competing for the same FDI. India has to offer economic opportunities which are more attractive than those of others competing for the same FDI. Foreign Direct Investment is a measure of foreign ownership of domestic productive assets such as factories, land and organizations. FDI have become the major economic driver of globalization, accounting for over head of all cross-border investments. To sum up, India has only recently begun to attract global capital and given the size of the economy, and its perceived high growth potential, it will remain an attractive investment in general and FDI in particular is seen to be supportive. Hence, the government must continue the peace of reforms to make India more and more attractive for make in India.

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