Does Foreign Direct Investment propel the engine of Economic Growth in India?

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Abstract: The opening up of the economy to global market in 1991 has made a drastic change in the investment and business climate of our country**.** Indian economy has witnessed a sea change in foreign investment policy as governments removed many restrictions on financial flows in and out of the country. The investor friendly trade and investment policies formulated by government made India an attractive destination for foreign investors and it stimulate the flow of foreign capital to India .Today India is a major hub for Foreign Direct investment among different countries of the world. The FDI can contribute to the economy of host countries through its contribution to GDP, employment, technological advancement and can influence the financial variables in the economy especially stock market indices ,FOREX rate and even balance of payment .The uninterrupted inflow of FDI in India will provide an impetus to manufacturing, innovation and start-ups which in turn will enable to fulfil the objectives of recent flagship programmes of Government of India like, Make in India, Digital India and Skill India. This will help to accelerate the growth rate and can help the country to emerge as a fast growing economy globally.

Key Words: Globalisation, Foreign Direct Investment,Economic Growth,

The era of Globalisation has opened up ample avenues for attracting external finance through Foreign Direct Investment in developing economies like India. The introduction of the macro-economic stabilization and structural adjustment programme by World Bank and IMF liberalised the trade and investment policies globally. During 1990 Indian Economy faced severe balance of payment crisis which forced our economy to adopt globalisation and structural adjustment policies to overcome the crisis. As a result of these reforms India opened its door to FDI inflows and adopted a more liberal foreign policy in order to restore the confidence of foreign investors and to attract more capital. Due to this Indian Economy has experienced tremendous increase in Foreign Direct Investment after 1990s.The opening up of the economy to global market in 1991 has made a drastic change in the investment and business climate of our country**.**

Due to economic and financial globalization and liberalization, FDI inflows have become strong engine of growth both in developed and developing countries by attracting investment giants in their domestic economies. Indian economy has witnessed a sea change in foreign investment policy as governments removed many restrictions on financial flows in and out of the country. Today India is a major hub for Foreign Direct investment. FDI inflows in India stood at $45.15 billion in 2014-15 and have consistently increased since then. The history of FDI in India can be traced back to the colonial intervention especially with the establishment of East India Company by British and remained a dominant investor in India. The entrance of Japanese multinational companies in Indian market after Second World War was another remarkable source of attracting external trade and finance avenues. After Independence the policy makers designed the FDI policy for acquiring advanced technology and to mobilize foreign exchange resources. As a result of these more MNCs and foreign capital flew in to Indian market. The industrial policy of 1965 adopted a liberal attitude towards trade that allowed MNCs to make technical collaboration in India through venture Capital. The investor friendly trade and investment policies formulated by government made India an attractive destination for foreign investors and it stimulate the flow of foreign capital in to India .India scored 16th rank in the Global Competitiveness Index 2015-16.

FDI is an important source of private capital for developing countries. The UN conference on Finance for Development opined that private international capital flows, particularly foreign direct investment are vital in contributing to national and international development efforts. Foreign Direct Investment in India can be made fewer than two ways:

1. Automatic Route where the non resident investor or the Indian company does not require any approval from Indian Government for making investment. Reserve Bank of India is in charge of these investment.Auto components, E-commerce activities Agriculture and Animal Husbandry have the permission of 100% FDI through automatic route
2. Governmental approval Route where prior approval from Indian Government is required for making investment.

Economic Impact of Foreign Direct Investment

The FDI can contribute to the economy of host countries in many ways. Research studies shows that Countries receiving foreign direct investment often experience higher economic growth. Albu (2013) argues that in order to recover economic growth a growth in FDI is needed. As a result of Globalisation, Foreign Direct Investment has become an important tool for economic stimulation in both developed and developing countries. Fast growing economies like Singapore, China, Korea etc have exhibited incredible growth through FDI.Maria-Ramona Sarbu, and Lenuţa Carp(2015) analysed the trends of FDI flows and the impact that FDI inflows on the economic growth of Romania and found out that FDI has a positive effect on the economic growth of the country . Priya Dwivedi and Jyoti Badge (2013) analysed the economic impact of FDI inflows on the Indian economy over the period of 2000 to 2012 and has revealed that Foreign Direct Investment has positive and significant impact on GDP. Johnson Andreas (2004) argues that FDI have a positive effect on economic growth as a result of technology spill over and physical capital inflows.

Creation of employment opportunity is the most visible and direct advantage of FDI .It will boost up manufacturing and service sector activities which will have a direct impact on employment generation-skilled as well as unskilled -especially among youth and generate multiplier income effect in the economy. Foreign Direct Investment will help in the Creation of a ccompetitive environment in domestic economy that will help to break domestic monopoly and induce the firm to foster innovation to adopt cost effective and efficient technology to take the advantage of competitive business environment. Consumer can take economic advantage of this competition as they get access to new market and new products

Foreign direct investment provides access to innovative technologies and technical expertise and finance to those countries that have limited resources and restricted opportunities raise fund in global market. Indian Company, Partnership firm, Trust, Investment vehicle, Proprietary concern and start up Companies are the important entities that can invite FDI in India. For example education plat form companies BYJU’s raised fund from Silver Lake a US based private equity company and Unacademy raised fund from Soft Bank Group,a Japanese Company

Foreign Direct Investment influences the financial variables in the economy especially stock market indices and FOREX rate and even balance of payment. A study conducted by the World Bank in 1997 reports that the countries that are receiving higher foreign investment have improved the stock market liquidity. SyedTabassum Sultana and Pardhasaradhi S (2012) based on stock market data on Sensex and Nifty from 2001 to 2011 found that the flow of FDI and FII has significant influence on Indian stock market. Stanley Morgan (2002) has examined that FIIs have played a very important role in building up India’s FOREX reserves. The continuous flow of FDI in a country will help the Central Bank to maintain sufficient foreign exchange reserves and ensures exchange rate stability.

Foreign Direct Investment will help to boost up the performance of foreign trade in the economy. Export sector, especially service sector export, showed a boost up with FDI inflows in India. The Sector-wise analysis of FDI Inflow in India shows that maximum FDI has taken place in the Service Sector including the telecommunication, information technology, travel and many others. Saleena N J (2013) opined that FDI has positively influenced the growth of service sector export in the Indian economy after the liberalization period. The post liberalisation trade policies like the Foreign Trade Policy (2004-2009), the National Telecom Policy (NTP) etc. increased export opportunities and induced foreign investors to take advantage of India's comparative advantage in the Service Sector. Even though, foreign direct investment contributes to growth in developing countries, the benefits are not equally distributed. Wage differentials among skilled and unskilled labours and regional disparity in investment, disruption of local industry etc. are some of the negative consequences of FDI.

Dimensions of FDI Inflows in India

Trend of FDI Inflow in India from 1999 to 2018

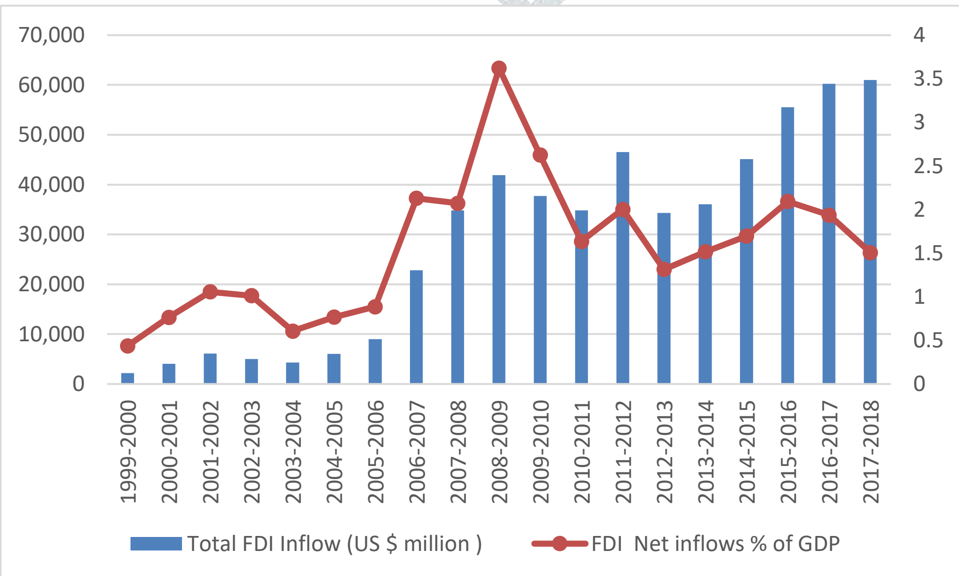
There is sharp increase in FDI Inflow in India especially after 2014 as compared to 1999 .Below table shows the FDI inflow in India and its contribution to GDP in the post liberalisation period.

Table: 1 FDI inflow of India 1999 to 2018

Year	Total FDI Inflow (US $ million)	FDI Net inflows (Percentage of GDP)
1999-2000	2,155	0.437
2000-2001	4029	0.765
2001-2002	6130	1.056
2002-2003	5,035	1.012
2003-2004	4,322	0.606
2004-2005	6051	0.766
2005-2006	8961	0.886
2006-2007	22826	2.13
2007-2008	34843	2.073
2008-2009	41873	3.621
2009-2010	37745	2.625
2010-2011	34847	1.635
2011-2012	46556	2.002
2012-2013	34298	1.313
2013-2014	36046	1.516
2014-2015	45148	1.696
2015-2016	55559	2.092
2016-2017	60220	1.937
2017-2018	60974	1.507

Source: Department for Promotion of Industry and Trade, GoI and RBI statistics

Figure: 1(a) FDI inflow and GDP



Country wise FDI inflows in India

With the Globalisation of economies, there is worldwide competition among countries for attracting FDI inflows. After the liberalisation of Indian economy, there is continuous inflow of FDI to India from various part of the world. Mauritius has been the largest contributor of FDI investor in India from 2009 onwards and it accounted around one third of total FDI inflow in India. Similarly countries including Singapore Japan, Netherlands, U.S.A, United Kingdom, Germany, Cyprus, France and U.A.E contribute significantly to the inflow of FDI in India. Table: 2 shows the Foreign Direct Investment inflows in India by major countries from 2099 to 2018

Table: 2 Country wise Foreign Direct Investment inflows in India

(From 2009 to 2018 in US $ million)

Country	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Mauritus	9801	5616	8142	8059	3695	5878	7452	13383	13415
Singapore	2218	1540	3306	1605	4415	5137	12479	6529	9273
Netherlands	971	1256	2089	1340	1157	2154	2330	3234	2677
USA	2212	1071	994	478	617	1981	4124	2138	1973
Japan	971	1256	2089	1340	1795	2019	1818	4237	1313
Germany	602	163	368	467	650	942	927	845	1095
Hong Kong	137	209	262	66	85	325	344	134	1044
United Kingdom	643	538	2760	1022	111	181	842	1301	716
Switzerland	96	133	211	268	356	292	195	502	506
UAE	373	188	346	173	239	327	961	645	408
France	283	486	58	547	229	347	392	487	403
South Korea	159	136	226	224	189	138	241	466	293

Source: Department for Promotion of Industry and Trade, GoI and RBI statistics

Distribution of FDI inflows to Different Sectors in India

In India the major sectors that attract FDI especially after liberalisation are service sector, computer software and hardware, telecommunications, trading, construction development, automobile industry, chemicals, drugs and pharmaceuticals, power and tourism.The FDI inflows to some sectors are prohibited in India These include: Atomic energy, Railway,Lottery Business including Government/private lottery, online lotteries, etc.,Gambling and Betting including casinos, Chit funds, Nidhi company, Trading in Transferable Development Rights (TDRs), Real Estate Business or Construction of Farm Houses,manufacturing of cigar, cheroots and tobacco. The service sector is the major sector and most favourable destination for investors to invest in India. The FDI investment in service sector constitutes 18% in the total share of FDI inflows to India and it keeps a stable position for the last several years. Service sector is dominant in Indian economy and it contributed contributes 55.2 per cent of gross domestic product of Indian economy in 2017-18(Economic Survey of India 2017-18).Increase of FDI cap by Government of India is the main reason of increasing share of FDI in service sector .The second major sector for FDI inflows in India is computer software and hardware. The Table: 3 gives the clear picture of the shares of FDI in top sectors of Indian economy in 2016-17.

Table :3 FDI inflows to top Ten Sectors in India in 2016-17

Sl No	Sectors	Percentage of total Inflows
1	Service Sector (Financial, Banking, Insurance, Non Fin/Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis, Other)	18%
2	Computer Software and Hardware	7%
3	Telecommunications	7%
4	Construction Development	7%
5	Automobile Industry	5%
6	Trading	4%
7	Chemicals (other than Fertilisers)	4%
8	Drugs and Pharmaceuticals	4%
9	Power	3%
10	Metallurgical Industries	3%

Source: RBI Statistics 2017

States Wise receipt of FDI inflows in India

Different states and Union territories in India are blessed with different resources and infrastructure facilities both Physical and financial. So the distribution if FDI among different states and regions are uneven. The receipts of FDI inflows in India are concentrating mainly in three major regions namely Maharashtra (Mumbai), Delhi and Karnataka (Bangalore).These three states have the potential to benefit from FDI because of the regional specialties among them. The main five investing countries in Maharashtra region are Mauritius, Singapore, United Kingdom, Netherlands and U.S.A. The major sectors involved in this region are services sector, construction development, computer software & hardware, drugs & pharmaceuticals and hotel & tourism respectively. In Karnataka region, Bangalore is the major city of the Karnataka state that attract for FDI inflows mainly in IT fields. The Table: 4 shows the percentage of receipt of FDI inflows among some of the states in India by 2017.

Table : 4 States Wise receipt of FDI inflows in India(by 2017)

Sl No	State	Percentage of Total Inflows
1	Maharashtra	31%
2	Delhi	20%
3	Karnataka	7%
4	Tamil Nadu	7%
5	Gujarat	5%
6	AndhraPradesh	4%
7	West Bengal	1%
8	Kerala	1%

Source : RBI Statistics 2017

Conclusion

There is steady flow of Foreign Direct Investment in India in various sectors of the economy especially service sector, software, telecommunication and manufacturing, in the post liberalisation period. Now Indian Economy is an attractive and stable hub for foreign capital investment and country has overtaken world giants mainly China and United State by 2015 in terms of FDI inflows. The initiatives of the Government of India to provide tax and non tax incentives to specific sectors and region for FDI investment and setting up of Special Economic Zones (SEZ), National Investment and Manufacturing Zones (NIMZ) and export Oriented Units (EOUs) have created favourable business environment and facilitated free and uninterrupted inflow of FDI in India. In addition to these the policies of respective state governments to foster FDI to their states like subsidised land price, tax concession, reduced tariff on electric power supply etc. helped to boost up FDI inflows. It has resulted in so many positive economic impacts in our country mainly in terms of infrastructure improvement, job creation, increase in export and foreign exchange reserves and even local development. The uninterrupted inflow of FDI in India will provide an impetus to manufacturing, innovation and start-ups which in turn will enable to fulfil the objectives of recent flagship programmes of Government of India like Make in India, Digital India and Skill India. This will help to accelerate the growth rate in Indian economy and can help to emerge as a fast growing economy globally.

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