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ANALYSIS OF FOREIGN DIRECT INVESTMENT AND IMPACT ON INDIAN ECONOMY: A CRITICAL STUDY

Balaji S. Mudholkar, Ph. D.
School of Commerce and Management Sciences, SRTM University Nanded, Maharashtra

Abstract

Liberalization policy has made sea change in the India economy. Indian Government is trying to increase FDI inflows to earn foreign currency. As FDI play very important role in economic development of developing countries. The objective of the study is to analyse FDI inflows in India since 2001 to 2020 also to assess the contribution of different sector in Indian economy. Further researcher will to explore the country wise information of FDI inflows in India. This paper is purely based on secondary data published RBI and department for promotion of industry and internal trade. The findings of this research will indicate the growth trend of FDI inflows.

Key words: *Liberalization, FDI, Inflows, Economy, Sector, and Explore*

Introduction: Foreign direct investment (FDI) means companies purchase capital and invest in a foreign country. Foreign Direct Investment (FDI) plays an important role in the growth and development of an economy. It is more important where domestic savings is not sufficient to generate funds for capital investment. Not only it supplements the investment requirements of an economy but also it brings new technology, managerial expertise and adds to foreign exchange reserves. FDI inflow is more beneficial particularly to developing and emerging countries than the developed ones. IMF has defined FDI as "a category of international investment that reflects the objective of a resident entity in one economy (direct investor or parent enterprise) obtaining a lasting interest and control in an enterprise resident in another economy (direct investment enterprise)".

Foreign Direct Investors look into various factors like Wage rates, Labour skills, Tax rates, Transport and infrastructure, Size of economy / potential for growth, Political stability / property rights, Commodities, Exchange rate, Clustering effects, Access to free trade areas, Flexibility in the Government Policy, Return on investment, before making investment decision in a country. After 1990, in India, the government adopted a New Economic Policy which promoted the policy of LPG (Liberalization, Privatization and Globalization). This has resulted in promoting more foreign direct investment into the country. Foreign Direct

Investment (FDI) is the investment of funds by an organisation from one country into another, with the intent of establishing 'lasting interest'. According to OECD (Organisation for Economic Co-operation and Development), lasting interest is determined when the organisation acquires a minimum of 10% of voting power in another organisation. For instance: the act of an Indian company such as Ola opening another headquarters in Sydney, Australia will be considered as bringing FDI into Australia.

Reinvestment of profits from overseas operations, as well as intra - organisational loans and borrowings to overseas subsidiaries are also categorised as FDI. The meaning of FDI is not restricted only to international movement of capital. Its definition also encompasses the international movement of elements that are complementary to capital - such as skills, processes, management, technology etc.

There is a difference between FDI and FPI (Foreign Portfolio Investments), wherein the investor purchases equity of foreign companies. FPI means only equity infusion, and does not imply the establishment of a lasting interest. FDI can be Greenfield, wherein an organisation creates a subsidiary concern in another country and builds its business operations there from the ground up. Greenfield investments provide the highest degree of control to the organisation. It can construct the production plant as per its specifications, employ and train human resources as per company standards, as well as design and monitor its operational processes. Alternatively, FDI can be brown field - wherein an organisation expands by way of cross-border mergers, acquisitions and joint ventures - by either leasing or purchasing existing facilities for its production. The clear advantage of brown field investments is the savings in cost and time for starting up, as well as engaging in construction activities. Addition of equipment to an existing facility also qualifies as brown field investment.

Objectives of writing research paper are:

1. To study sector wise FDI inflows in India.
2. To analyze the growth trends of FDI since 2001 to 2019-20.
3. To study country wise equity inflows from April 2000 to march 2020

Research Methodology: This research study purely based secondary data which is gathered from various websites like Reserve Bank of India, FDI India, Foreign Investment facilitators, ministry of commerce and Industry, department for promotion of Industry and International trade and other related websites.

Types of research: This is analytical research study based on facts and information available on various government websites. The analysis of this paper is based facts and data gathered from various government websites.

Tabulation and Interpretation of data:

Table-1: Sectors attracting highest FDI equity inflows:

Amount in Rs. Corores (in US$ Million)

Ranks	**Sector**	**2017-18 (April – March)**	**2018-19 (April – March)**	**2019-20 (April – March)**	**Cumulative Inflows (April, 00 - March, 20)**	**% age to total Inflows (In terms of US$)**
1.	Services sector **	43,249 **(6,709)**	63,909 **(9,158)**	55,429 (7,854)	471,730 (82,003)	**17%**
2.	Computer software & hardware	39,670 **(6,153)**	45,297 **(6,415)**	54,250 (7,673)	276,006 (44,911)	**10%**
3.	Telecommunications	39,748 **(6,212)**	18,337 **(2,668)**	30,940 (4,445)	219,189 (37,271)	**8%**
4.	Trading	28,078 **(4,348)**	30,963 **(4,462)**	32,406 (4,574)	176,005 (27,595)	**6%**
5.	Construction development	3,472 **(540)**	1,503 **(213)**	4,350 (617)	129,964 (25,662)	**5%**
6.	Automobile industry	13,461 **(2,090)**	18,309 **(2,623)**	19,753 (2,824)	143,742 (24,211)	**5%**
7.	Chemicals (other than fertilizers)	8,425 **(1,308)**	13,685 **(1,981)**	7,492 (1,058)	98,554 (17,639)	**4%**
8.	Construction (infrastructure) activities	17,571 **(2,730)**	15,927 **(2,258)**	14,510 (2,042)	108,383 **(16,847)**	**4%**
9.	drugs & pharmaceuticals	6,502 **(1,010)**	1,842 **(266)**	3,650 (518)	87,814 (16,501)	**4%**
10.	Hotel & tourism	7,279 **(1,132)**	7,590 **(1,076)**	21,060 **(2,938)**	91,779 **(15,289)**	**3%**
	Total	**207455**	**217362**	**243840**		

Source: dipp.gov.in

****Services sector includes Financial, Banking, Insurance, Non-Financial / Business, Outsourcing, R&D, Courier, Technology and Testing and Analysis**

Above table shows that, total FDI equity inflows in service sector has been increased during 2017-18 to 2019-20 with 207455, 217362 to 243840 Crores respectively**.** If we compare the above ten service sector, it is observed that, service sector which includes Financial, Banking, Insurance, Non-Financial / Business, Outsourcing, R&D, Courier, Tech. has contributes 17% inflows in FDI equity whereas 3% in hotel and tourism but during 2017 to 2020 this hotel and tourism industry has been showing increasing trends in FDI equity inflows, Other industries like Telecommunications, Construction (infrastructure) activities and drugs & pharmaceuticals showing decreasing trends in FDI equity inflows and whereas Chemicals (other than fertilizers) industries showing fluctuation.

Table-2: DPIIT's – Financial year-wise FDI equity inflows:

(As per DPIIT's FDI data base – equity capital components only):

S. No.	**Financial Year (April – March)**	**Amount of FDI Inflows**		**%age growth over previous year(in terms of US $)**
FINANCIAL YEARS 2000-01 TO 2019-20		***In Rs Crores***	***In US$ Million***	
1.	2000-01	10,733	2,463	-
2.	2001-02	18,654	4,065	(+) 65 %
3.	2002-03	12,871	2,705	(-) 33 %
4.	2003-04	10,064	2,188	(-) 19 %
5.	2004-05	14,653	3,219	(+) 47 %
6.	2005-06	24,584	5,540	(+) 72 %
7.	2006-07	56,390	12,492	(+) 125 %
8.	2007-08	98,642	24,575	(+) 97 %
9.	2008-09	142,829	31,396	(+) 28 %
10.	2009-10	123,120	25,834	(-) 18 %
11.	2010-11	97,320	21,383	(-) 17 %
12.	2011-12	165,146	35,121	(+) 64 %
13.	2012-13	121,907	22,423	(-) 36 %
14.	2013-14	147,518	24,299	(+) 8%
15.	2014-15	181,682	29,737	(+) 22%
16.	2015-16	262,322	40,001	(+) 35%
17.	2016-17	291,696	43,478	(+) 9%
18.	2017-18	288,889	44,857	(+) 3%
19.	2018-19	309,867	44,366	(-) 1%
20.	2019–20	353,558	49,977	(+) 13%
CUMULATIVE TOTAL (from April, 2000 to March, 2020)		2,732,444	470,119	

Source: dipp.gov.in

Above table indicates that, during financial year 2000 to 2020 total amount of FDI inflows is 2,732,444 crores. It also observed that there is fluctuation in FDI inflows. If we compared 2000 to 2020 there has been increased in the amount 10773 to 353558 Crores. After analysis it seen that, the percentage growth over previous year in 2006 to 2007 is +125 % which highest whereas (-1) in 2018 -2019 which is lowest.

Table-3: Statement on country-wise FDI equity inflows from April 2000 to March 2020

S no	Name of the country	Amount of Foreign Direct Investment Inflows		%age with Inflows
		(In Rs crore)	(In US$ million)	
1	Mauritius	795,941.10	142,710.44	30.36
2.	Singapore	609,561.54	97,669.64	20.78
3.	Netherland	208,321.91	33,852.04	7.20
4.	Japan	196,105.07	33,499.21	7.13
5.	U.S.A	176,222.24	29,779.40	6.34
6	United Kingdom	150,411.05	28,210.85	6.00
7	Germany	68,944.34	12,196.01	2.59
8	Cyprus	57,993.48	10,748.39	2.29
9	France	50,510.98	8,539.31	1.82
10	Cayman Islands	49,847.82	7,535.86	1.60
11	UAE	41,702.73	6,990.60	1.49
12	Switzerland	27,240.87	4,842.38	1.03
13	South Korea	27,824.14	4,478.14	0.95
14	Hong Kong	27,220.74	4,407.98	0.94
15	Luxembourg	19,256.74	3,082.70	0.66
16	Spain	16,822.64	2,991.18	0.64
17	Italy	16,781.00	2,927.77	0.62
18	China	15,112.07	2,378.71	0.51
19	Belgium	12,153.20	1,977.60	0.42
20	Canada	11,971.91	1,937.14	0.41

Source: dipp.gov.in

Above table highlighted that, Mauritius 30.36%, Singapore 20.78%, Netherland 7.20%, Japan 7.13%, USA 6.34%, United Kingdom 6% and Germany 2.54% of the total amount received in the form of Foreign Direct Investment Inflows from these countries is 2205507.25 Crores of Rupees. Whereas country likes Canada, Belgium, China Italy and Spain has received 72840.82 Crores.

Conclusion: Findings related to the main objectives of the study. The key findings of this research reflect that FDI has a positive impact on the development of service sector in India. The findings of this research reflect that FDI is essential for enhancing the domestic capital, productivity along with the employment rate of the country. Overall, the research study concludes that Increased investment in FDI particularly in service sector has resulted in the improvement in infrastructure, as well as the financial services more specifically in banking sector which includes Financial, Banking, Insurance, Non-Financial / Business, Outsourcing, R&D, Courier, Tech. have witnessed significant growth. Thus, FDI has contributed towards accelerating the economic development in the Indian economy and more specifically in the service sector. India's Foreign Direct Investment (FDI) policy has been gradually liberalized to make the market more investor friendly. The results have been encouraging. These days, the country is consistently ranked among the top three global investment destinations by all international bodies, including the World Bank, according to a United Nations (UN) report. For Indian economy which has tremendous potential, FDI has had a positive impact. FDI inflow supplements domestic capital, as well as technology and skills of existing companies. It also helps to establish new companies. All of these contribute to economic growth of the Indian Economy.

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