

Foreign Direct Investment: Growth and role in the Indian Economy

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Abstract

Foreign Direct investment is a process which enables the residents of one country to directly invest their funds into another country and acquire ownership of assets and exercise control over the investment in terms of production, management, distribution, effective decision making, employment etc. The aim of the present study is to analyse the trend in growth of FDI inflows in India. It is revealed from the results that FDI inflows in India had shown a positive slope with coefficient of about 2.84. In this study the compound growth of FDI inflow in the India is also pointed out since 2000-2001. It is observed from the table that compound growth rate of FDI inflow during the whole reference period was noted to be 25.39 per cent. Further it is revealed that there was a remarkable increase in compound growth rate of FDI inflow during the second phase i.e. from 2005-06 to 2009-10 which was noted to be 51.46%. While as year wise growth rate of FDI inflows is also pointed out in this study. With regard to the year wise growth rate it is revealed from the table that the highest growth rate of FDI inflow was witnessed in the year 2006-07 which is noted to be 129.38 %. Further it is observed from the table that the negative annual growth rate is also witnessed in many years such as 2002-03, 2009-10, 2010-11, 2013-14, But it is also observed from the table the year wise growth rate of FDI flow is still fluctuating. The study also aimed to understand the importance of FDI for the development of Indian economy.

Keywords: Foreign Direct Investment, Indian Economy, Trends, Importance.

1. INTRODUCTION:

Foreign Direct investment is a process which enables the residents of one country to directly invest their funds into another country and acquire ownership of assets and exercise control over the investment in terms of production, management, distribution, effective decision making, employment etc. FDI is an international financial flow with the intention of controlling in the management of an enterprise in a foreign country. It is a means of making foreign resources available to a developing country. The reserve bank of India defines FDI as incorporated or unincorporated enterprise in which a direct investor is a resident in another economy, owns 10% of the ordinary shares or voting power of incorporated and un incorporated enterprise. It is that company in which 10% or more equity capital is held by single NRIs is defined as foreign direct investment company. Such investments can take place for many reasons including to take advantage of cheaper wages, special investment privileges, offered by the country.

There are two main types of foreign investments:

1 Portfolio investments: Portfolio investments are investments in purely financial assets such as bonds, stocks denominated in national currency. Portfolio or financial investments take place mainly through financial institutions such as banks investment fund.

2. Direct Investments: These investments are the real investments in factories, capital goods, land and inventories where both capital and management are involved and the investors retain control over use of invested capital.

Foreign Direct investment is directly into production in a country by a company located in another country, either by buying a company in the target country, or by expanding operations of an existing business in that country.

2. OBJECTIVES OF THE STUDY:

- To analyse the trend in growth of FDI inflows in India Since 2000-01.
- To understand the importance of FDI in Indian Economy.

3. RESEARCH METHODOLOGY:

Methodology is required for every researcher for getting the information related to the research work. Research methodology is a way to systematically solve the research problem.

Source of Data:

In order to show the trends in FDI inflows in India the source of the data was secondary in nature and mainly collected from Department of Industrial Policy & Promotion, Government of India, Ministry of Commerce and Industry. (FDI Statistics- 2000-01 to 2015-16). The secondary data was collected for the period of Sixteen years viz from 2000-01 to 2015-16. The reference period of study is of sixteen years from 2000-01 to 2015-16. To reveal the compound Growth in FDI inflows, the analysis was done in four phases i.e., Phase first from 2000-01 to 2004-05, phase second from 2005-06 to 2009-10-11, phase third from 2010-11 to 2015-16, and phase fourth which is of eighteen years from 2000-01 to 2015-16.

Analytical procedure:

Annual Growth Rate or Simple Growth Rate: The annual growth rates for a series of T annual observations, say $y_1, y_2, y_3, \dots, y_t$ is defined as:

$$a_t = \frac{y_t - y_{t-1}}{y_{t-1}}$$

Whereas; y_t refers current year out-put.

y_{t-1} Refers previous year out-put.

5) Compound Growth Rate: The Compound Growth Rate has been calculated with the help of exponential function which is as

Exponential Function $Y = ab^x$

The CGR = $\text{Antilog}(b-1) * 100$

4. RESULTS AND DISCUSSION:

Importance of Foreign Direct investment (FDI) in the Economy of India:

The economic Outlook of India underwent a paradigm transition when the economy was liberalised in 1991. Foreign direct investment is one of the measures of growing economic globalisation. Investment has always been an issue for the developing countries like India.

The world has been globalising and all the countries are liberalising their policies for welcoming investment from countries which are abundant in capital resources. Therefore, FDI has become very necessary in the emerging markets. The objective behind allowing FDI is to supplement domestic investment for achieving higher level of economic development. Foreign Direct Investment has played an important role in the development of an Indian Economy. FDI in India has enabled India to achieve a certain degree of financial stability, growth and Development in various ways. The factors that attracted Investment in India are stable economic policies, availability of cheap and quality resources and opportunities of new unexplored markets. FDI has boosted the economic life of India. After liberalisation of trade policies in India, there has been a positive economic growth. Foreign Direct Investments helps in developing the economy by generating employment opportunities, Generating revenues in the form of tax and incomes, Financial stability, development of infrastructure, backward and forward linkages to the domestic firms for the need of raw materials, tools and act as support for financial system. It helps in generation of employment hence also helps in poverty eradication. In the country so many businesses or individuals who would earn their livelihood through FDI.

Year wise growth rate:

In this section the year wise growth rate of fdi Inflow in India during the whole reference period is shown:

Table-1: Annual growth rate of FDI inflow in India from 2001-02 to 2018-19.

year	in Rs crores	Annual growth rate
2000-01	10733	

2001-02	18654	73.80
2002-03	12871	-31.00
2003-04	10064	-21.81
2004-05	14653	45.60
2005-06	24584	67.77
2006-07	56390	129.38
2007-08	98642	74.93
2008-09	142829	44.80
2009-10	123120	-13.80
2010-11	97320	-20.96
2011-12	165146	69.69
2012-13	121907	-26.18
2013-14	147518	21.01
2014-15	189107	28.19
2015-16	262322	38.72
Cumulative Total	1495860	

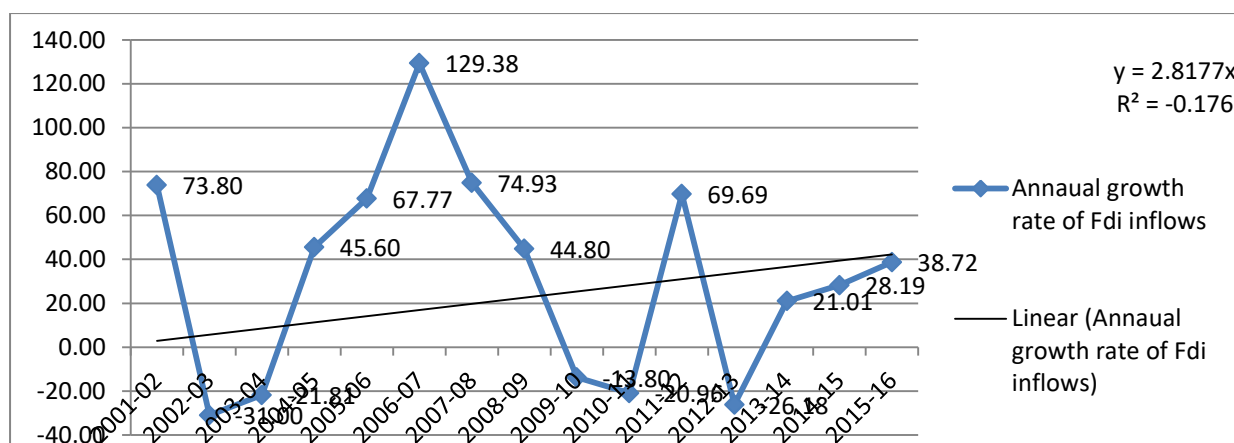
Source: Department of Industrial Policy & Promotion, Government of India, Ministry of Commerce and Industry. (FDI Statistics- 2000-01 to 2015-16).

The Cumulative Total of FDI from 2000-01 to 2015-16 is 1495860 in crore rupees. Table 1 shows that the year wise growth rate of foreign direct investment inflows in India. An analysis of the whole reference time period of trends in FDI inflows reveals that there has been a steady flow of FDI in India from 2000-01 to 2004-05, but there is rapid increase in the FDI inflows from 2005 onwards. It is revealed from the table that the highest growth rate of FDI inflow was witnessed in the year 2006-07 which is noted to be 129.38 %. The table shows that in 2001-02, the annual growth rate in the inflows of the FDI into India increased by about 73%. But in the next year i.e. 2002-2003 it is observed from the results that the year wise growth rate in FDI inflows was witnessed to be -31%. It is due to external factors like the terrorist attacks on the Indian Parliament in December 2001 and on World Trade Centre (WTO) in September 2001. Further it is observed from the table that the negative annual growth rate is also witnessed in many years such as 2002-03, 2009-10, 2010-11, 2013-14. The increase in FDI inflows during 2008 is due to increased economic growth and sustained developmental process of the country. During the recent global crisis, when there was a significant deceleration in global FDI flows during 2009-10, the decline in FDI flows to India was relatively moderate reflecting robust equity flows on the back of strong rebound in domestic growth ahead of global recovery and steady reinvested earnings (with a share of almost 25 per cent) reflecting better profitability of foreign companies in India. However, when there had been some recovery in global FDI flows, especially driven by flows to Asian EMEs, during 2010-11, gross FDI inflows to India witnessed significant moderation. But it is also observed from the table the year wise growth rate of FDI flow is still fluctuating. Thus there is a need to make efforts to attain stability in the year wise growth rate of FDI inflows.

5. TREND ANALYSIS:

Trend analysis provides the rate of change of a particular variable during the period of reference and the direction of change. A trend analysis shows that the level of outward FDI from India has increased manifold since 2000-01.

Figure: Trends in year wise growth rate of FDI inflows in India



Source: compiled from table 1 by researcher.

Trend analysis of foreign direct investment inflows in India are acquainted in fig 1..It was revealed from the results that FDI inflows in India had shown a positive slope coefficient of about 2.81 which implies that there is 2.81 % increase in FDI inflows due to unit change in time here which is one year time period.

Compound Growth rate:

In order to reveal the compound growth rate of FDI inflows in India data has been analysed in four phases i.e., Phase first from 2000-01 to 2005-06, phase second from 2005-06 to 2010-11, phase third from 2010-11 to 2015-16, and phase fourth which is of sixteen years from 2000-01 to 2015-16 for the purpose of in-depth analysis and in order to maintain uniformity.

Table Compound growth rate of FDI inflows in India

Phases	Compound growth rate (%)
2000-01 to 2004-05	-5.49
2005-06 to 2009-10	51.46
2010-11 to 2015-16	17.20
2000-01 to 2015-16	25.39

Source: Compiles by the researcher from table 1.

It is observed from the table that CGR of FDI inflow during the whole reference period was noted to be 25.39 per cent. Further it is revealed that CGR of FDI inflow during the first phase was -5.49. But there was a remarkable increase in compound growth rate of FDI inflow during the second phase i.e. from 2005-06 to 2009-10 which was to be 51.46. While as the CGR during the period from 2010-11 to 2015-16 was 17.20 per cent.

6. CONCLUSION:

An analysis of the last sixteen years of trends in FDI inflows reveals that there has been a steady flow of FDI in India from 2000-01 to 2004-05, but there is rapid increase in the FDI inflows from 2005 onwards. It is observed from the study that compound growth rate of FDI inflow during the whole reference period was noted to be 22.68 per cent. Further it is revealed that there was a remarkable increase in compound growth rate of FDI inflow during the second phase i.e. from 2005-06 to 2009-10 which was noted to be 51.46%. It is revealed from the table that the highest growth rate of FDI inflow was witnessed in the year 2006-07 which is noted to be 129.38 %. A trend analysis shows that the level of outward FDI from India has increased manifold since 2000-01. It was revealed from the results that FDI inflows in India had shown a positive slope coefficient of about 2.8 which implies that there is 2.8 percent increase in FDI inflows due to unit change in time here which is one-year time period. The Cumulative Total of FDI from 2000-01 to 2015-16 is 1495860 in crore rupess

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