International Journal of Advance and Applied Research
www.ijaar.co.in
ISSN – 2347-7075 Impact Factor – 7.328
Peer Reviewed Bi-Monthly
Vol.9 No.5 May – June 2022

A STUDY OF ROLE OF FOREIGN DIRECT INVESTMENT (FDI) IN INDIAN ECONOMY

Atul Kumar Pathak
Research Scholar, School of commerce and management, Arka Jain University, Mohanpur,Gamaharia, Jharkhand- 832108
Corresponding Author- Atul Kumar Pathak
Email: *atul.p@arkajainuniversity.ac.in*

Abstract
The vital components that support the expansion of the indian economy are foreign direct investments (fdi). India has seen a change in the flow and direction of foreign direct investment (fdi) into the nation since the advent of the liberalisation policy under dr. Manmohan singh's finance ministry in 1991. Fdi is viewed as a key driver of economic growth in developing nations. It does this through encouraging domestic investment, raising the level of human capital formation, and facilitating the transfer of technology to the host nation.india has relied on fdi as a source of economic growth since the 1990s since they think that it provides more advantages than just the necessary funds. The main advantage of fdi for a developing nation like india is that it promotes job growth. Another advantage for the host countries is technology transfer. This paper aims to examine the trajectory of foreign direct investment (fdi) from 2000 to 2019. Additionally, it looks at the effects of fdi inflows in india between 2000 and 2019

Introduction

A country's growth process is greatly influenced by foreign direct investment (fdi). Leading economies of the globe, including china, received more than $100 billion in fdi in 2008, accounting for nearly 20% of total fdi to poor countries throughout the 2001–10 period. This increase in fdi has advanced economic development and enhanced institutional capacity1 (fdi- the china story, 2010). According to a piece in "the hindu," foreign direct investment (fdi) can account for up to 40% of incoming resources, 10% of capital formation, and up to 50% of gdp in some nations. The history of foreign direct investment in india reveals that, prior to independence, the majority of fdi came from british corporations. After the second world war, japanese businesses expanded their commerce with india despite the united kingdom continuing to be india's largest investor. Even after gaining independence, policymakers paid attention to matters involving mnc operations and foreign investment. The fdi strategy was created with the national interest in mind, and it was intended to use fdi as a means of acquiring cutting-edge technology and for the mobilisation of foreign exchange reserves. The fdi policy evolved over time in accordance with economic and political regimes. The country's economic constitution, commonly known as the industrial policy of 1965, permitted foreign businesses to engage in technical cooperation. According to the economic survey (1991–1992), "all the key indices of budgetary imbalances were rising during the 1980s. These included the gross fiscal deficit, the revenue shortfall, the monetized deficit, and the traditional budgetary deficit. Furthermore, because it accounts for the government's debt, the fiscal deficit concept provides a more comprehensive assessment of macroeconomic imbalance. Since 1985-86, the central government's gross fiscal deficit has exceeded 8% of gdp, compared to 6% in the start of the 1980s and 4% in the middle of the 1970s.

Following were the primary contributing factors to the 1990–1991 balance of payment crisis:

1. Fall of the soviet union: up until the 1980s, india engaged in significant trade with the soviet union, with payments paid in rupees. Numerous rupee payments were stopped in 1990–1991 as a result of the implementation of glasnost and perestroika as well as the dissolution of eastern european nations. As a result, the flow of fresh rupee trade credits rapidly decreased in 1990–1991.
2. The direct reason of the loss of reserves starting in september 1990 was a substantial increase in the imports of oil and petroleum products (from an average of $ 287 million in june-august 1990 to $ 671 million in six months), according to the economic survey (1991-92).

The movement of private capital flow in the form of foreign direct investment in developing nations, especially during the 1990s, has been one of the most challenging aspects of the modern world. Fdi is described as "an investment that is undertaken to acquire an enduring interest in a firm operating an economy other than that of investor" by the international monetary fund (imf). To oversee the manufacturing, distribution, and other productive operations of a company in another nation, people of one country obtain ownership of assets through the process known as foreign direct investment (fdi) (the host country). According to the balance of payments, fdi is the total of equity investments, earnings reinvested, other long-term capital, and short capital. Participation in joint ventures, management, the transfer of technology, and expertise are frequently included.

There are two types of fdi:-

1. Inward foreign direct investment
2. Outward foreign direct investment

Together, these fdis represent net fdi inflows (positive or negative)

Under the two options listed below, an indian company may obtain foreign direct investment:

Automatic route:

according to the unified fdi policy, periodically released by the government of india, fdi is permitted through the automatic route without the previous approval of either the government or the reserve bank of india in all activities/sectors.

Government route:

foreign direct investment (fdi) in activities not covered by the automatic route requires prior government clearance and is evaluated by the foreign investment promotion board (fipb), department of economic affairs, and ministry of finance. The promotion of production efficiency and an increase in exports have been two key goals of fdi promotion in india and other developing nations. It serves as a link to close the economic gap between saving and investment. Foreign direct investment (fdi) not only helps to alleviate the domestic saving shortage, but it also facilitates access to advanced technologies that increase the productivity and efficiency of already-existing production facilities. Since the east asian financial crisis of 1997, the relationship between foreign direct investment, economic growth, and exports has become increasingly important to researchers and policymakers. The idea that a country's external and inward fdi status is correlated with its economic progress in relation to the rest of the world has been advocated by the concept of "investment led economic development. Over the past few years, fdi has emerged as the primary source of foreign resource flows to developing nations. The following are typically the effects of **fdi on the host economy:-**

1. Employment generation
2. Increase in productivity
3. Boost in exports
4. Escalated pace of transfer of technology
5. Facilitates the utilization and exploitation of local raw material
6. Initiates modern techniques of management
7. Palliates the access to new technology
8. Increases the stock of human capital via job training and skill enhancement

In addition to all of these benefits, fdi inflows can be utilised to cover current account deficits and do not result in the return of principal or interest (as opposed to external debts). Fdi is viewed as a growth engine for developed economies in the light of the new theory of economic growth. The world bank (2002) observed that a number of recent research came to the conclusion that fdi can aid in the economic growth and export of the host nation. However, there are significant differences across nations and industries in terms of the precise connection between foreign multinational firms and their host nations. The features of the host nation and the political climate play a significant role in determining the net benefit of fdi.

fdi inflows in india

(from 1948-2010)

Amount of fdi	Mid 1948	March 1964	March 1974	March 1980	March 1990	March 2000	March 2010
In crores	256	565.5	916	933.2	2705	18486	1,23,378

review of literature

This chapter provides a summary of several research projects, reviews, and newspaper articles written by various people who have already expressed interest in the topic of this research paper and whose work has proven to be useful for conducting additional study.

Bhavya malhotra (2014) argued that india's foreign direct investment policy has gradually proven to be beneficial to make the market more investor-friendly in his research paper, "foreign direct investment: impact on indian economy." the impact of fdi on the indian economy has produced positive and enticing consequences.

According to a un report, india has continuously been named among the top three international investment locations over the past ten years by organisations like the world bank. The indian economy, which has tremendous potential, has benefited from foreign direct investment. Foreign direct investment (fdi) inflows support current businesses by enhancing their access to domestic capital, technology, and skills. They also aid in the creation of new businesses that create more employment possibilities. Each of these promotes the expansion of the indian economy.

[1.] Bhavya malhotra (2014) *"foreign direct investment: impact on indian economy"* ,sri aurobindo college, university of delhi, global journal of business management and information technology, issn 2278-3679 volume 4, number 1 (2014), pp. 17-23 research india publications

V n balasubramanyan vidya mahambare (2003)- foreign direct investment is a superb channel for the transfer of technology, and it has had a significant impact on economic growth and the productive efficiency of indian industry, according to **v n balasubramanyan vidya mahambare** (2003) in their research paper titled "foreign direct investment in india." the efficacy of fdi in any country is determined by the presence of cooperative elements in the host economy, and it is most effective in those economies that have a sufficient amount of human capital, according to the authors. According to the study, any nation can aim for as much fdi as its level of industrialization and the institutions that support and regulate the operations of foreign businesses permit.

Dr. Swapna s. Sinha, dr. David h. Kent, and dr. Hamid shomali (2007) the authors of the paper "comparative analysis of fdi in china and india" by have compared evaluated the variables of fdi in emerging markets and used india and china to examine the incidence of fdi inflows in these rising countries. According to the study, china's economy grew by $60 billion in 2005, and in the 27 years since it opened to foreign trade in 1978, the country has seen rapid economic expansion due to its friendly business environment, which offers economic freedom for companies and industries to expand and flexible labour laws that enable the market to support economic growth. According to the report, fdi's contribution to india's economic growth in 2004 was barely $6 billion. In the past fifteen years, fdi has been affected by the size of the indian economy, political stability, and level of corruption. Thus, the report contends that india may also increase fdi and grow more quickly if fundamental improvements are made to its economy.

[2.] Vn balasubramanyan, vidya mahambare (2003) "foreign direct investment in india", lancaster university management school, working paper 2003/001

[3.] Dr. Swapna s. Sinha, dr. David h. Kent and dr. Hamid shomali (2007) *"comparative analysis of fdi in china and india"* reffered edition – issn 1176-8592, volume 3, issue 2, september 2007.

Sourangsu banerji (2013) in his study paper "effects of foreign direct investment (fdi) in the indian economy," attempts to assess the benefits and drawbacks of fdi when it operates in the indian domestic markets. In his study, the researcher argues both "for" and "against" the introduction of the fdi.

For fdi:

1. Fdi results in an increase in money flow, which boosts economic activity.
2. The employment rate has increased.
3. As the total demand for goods rises, the aggregate supply will eventually shift to the right.
4. Since investment is a part of aggregate demand, there will be a shift in aggregate demand as well.

Domestic producers are encouraged to increase their efficiency via foreign direct investment. Since more nations would have a stake in it, the government will have a stronger voice at international summits.

Against fdi:

1. if domestic enterprises are comparatively less competitive, they may suffer.
2. there may be a minor increase in inflation.

One industry may become more dependent on it if there is a lot of fdi, which is dangerous.

In summary, the author believes that fdi would enable india to swiftly expand its capital base while creating more employment prospects. A significant contribution to the nation's economic growth is made by fdi, which strengthens a significant amount of domestic capital and output. Foreign direct investment generally has transformative consequences.

[4] sourangsu banerjee (2013), *"effects of fdi in indian economy"*, university of utah, publication/281047667

Project objectives

The goal and premise of the study on foreign direct investment and indian economic growth are outlined in this chapter. The goal of the current study is to analyse key aspects of fdi in india. The study focuses on the primary drivers of investment into india as well as trends and patterns. Additionally, it looks at the impact of fdi on india's economic growth from 2000 to 2019.

objectives of the study:

1. To research the fdi influx trends and patterns from 2000 to 2019.
2. To determine how much fdi will affect the economy.

hypothesis:

1. h_{1-} the flow of foreign direct investment has increased from 2000 to 2019.
2. H_{2-} the country's economy grows favourably as a result of fdi.

research methodology

research design:

This chapter seeks to draw a link between foreign direct investment and india's economic growth from 2000 to 2019. The following components make up the research design:

data collection:

Secondary data is the foundation of this investigation. The necessary information was gathered from a number of sources, including:-

1. rbi, different concerns, and the handbook of statistics on the indian economy
2. Department of industrial policy and promotion (dipp)
3. Department for promotion of industry and internal trade (dpiit)
4. Secretariat of industrial assistance
5. Economic survey, government of india, various issues.

Sample area:

The entirety of india is included in the study area for this essay.

The study's data is based on foreign direct investment (fdi) and india's economic growth between 2000 and 2019.

Research technique:

This paper is based on analytical research.

methodology used:

Utilizing secondary data, the study's goals have been investigated. The world bank, reserve bank of india, department of promotion of industry and internal trade, department of industrial policy promotion, statistics times, and various issues of sia publication official websites were used to gather the data for the study. Additionally, different tables and graphs are employed to illustrate the collected data. For each separate representation of fdi inflows into the nation and gdp growth (percent) throughout the years 2000–2019, bar graphs have been employed. A line graph is used to analyse the link between gdp and fdi inflows.on this basis of the findings, conclusions are taken.

data analysis and interpretation

This paper attempts to investigate the fdi (foreign direct investment) trends and patterns from 2000 to 2019. This chapter uses various graphical tools, such as charts, tables, graphs, and diagrams, to analyse data on fdi inflows and subsequent growth in gdp that was obtained from the world bank, statistics times, and dpiit.

The conclusion of the data analysis will put the earlier chapter's hypothesis to the test.

The following hypothesis were stated as part of this study:-

1. H_{1-} the flow of foreign direct investment has increased from 2000 to 2019.
2. H_{2-} the country's economy grows favourably as a result of fdi.

data analysis:

We begin by examining each unique trend and pattern of fdi influx before examining the gdp trend from 2000 to 2019. This part will provide both tabular and graphical depiction, followed by the necessary justification.

analysis of fdi inflows:

Based on the information in table 6.1.1, the following bar graph will show the fdi inflows into india from 2000 to 2019 for each year:

fdi inflows in india:

table 6.1.1

years	fdi inflows in india (in us$ million)
2000-2001	2,463
2001-2002	4,065
2002-2003	2,705
2003-2004	2,188
2004-2005	3,219
2005-2006	5,540
2006-2007	12,492
2007-2008	24,575
2008-2009	31,396
2009-2010	25,834
2010-2011	21,383

2011-2012	35,121
2012-2013	22,423
2013-2014	24,299
2014-2015	29,737
2015-2016	40,001
2016-2017	43,478
2017-2018	44,857
2018-2019	44,366
2019-2020	36,769

source: dpiit

The bar diagram below is a graphical representation of inflow of fdi in india from the year 2000 to 2019 to observe the trend from 2000 to 2019.

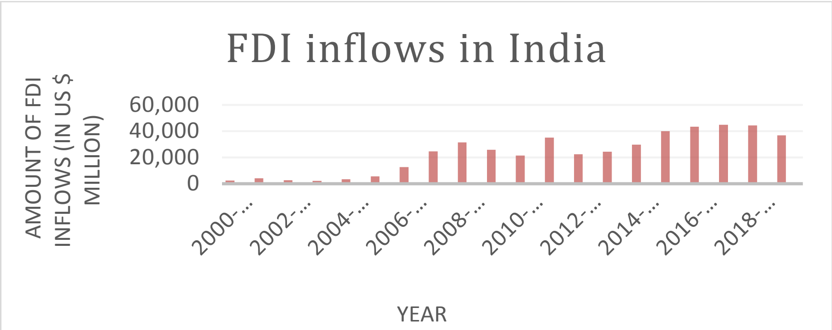


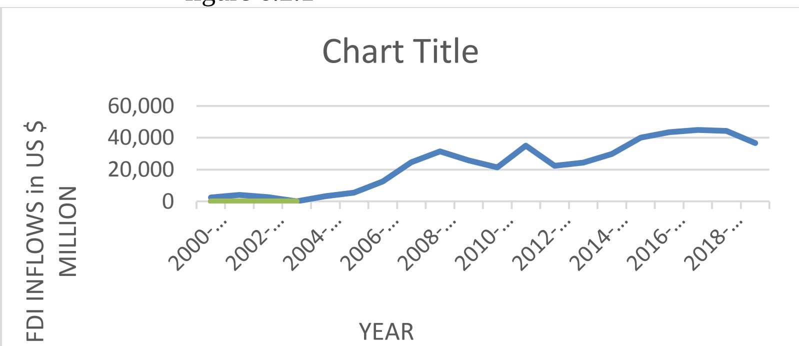
figure 6.1.1

The volume of fdi inflows from 2000 to 2019 is depicted in figure 6.1.1 with an increasing trend. From april 2000 to december 2019, fdi inflows totaled 658,893 us dollars million1. Although the earlier years of the statistics shown show a very low level of fdi inflow compared to the influx of fdi following the financial year 2005–2006. By surpassing the uk and france to become the fifth-largest economy in the world in 20191 (india became the fifth-largest economy in 2109, overtaking them in 2019) and having a gdp of usd 2.94 trillion, the indian government's economic reforms implemented in 1991 have made the nation one of the top performers of the world's economies. Due to the country's persistent development efforts and rising economic growth during 2008, foreign investors' faith in the indian economy was restored despite the global economic crisis. Foreign inflows decreased by 36% to $22,423 million in 2012–13 from $35,121 million in 2011–2012, which led to a decline in fdi. Fdi inflows have been steadily increasing since 2012–13 and hit a record high of $44,857 million in 2017–18. However, fdi in india fell for the first time in the previous six years in 2018–19, falling by 1% to $ 44,366 million as foreign money inflows in the telecom, pharmaceutical, and other industries slowed. The fdi inflows decreased even more, falling to $36,769 million in the 2019–20 fiscal year.

data intrepretation:

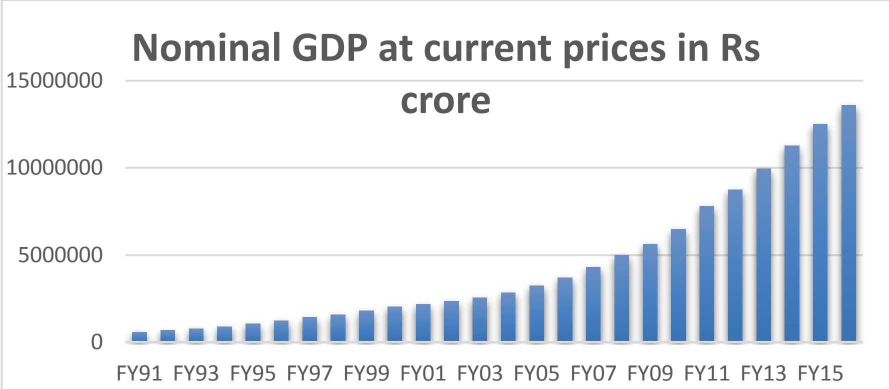
hypothesis testing: h_{01}-flow of fdi shows a positive trend over the period 2000-2019.

figure 6.2.1



The fdi inflows line in figure 6.2 is trending upward in a trend. This suggests that fdi inflows have significantly increased between 2000 and 2019 in terms of volume. Consequently, the hypothesis h1 is accepted, and we can draw the conclusion that fdi has increased (in a positive direction) over time (2000-2019).

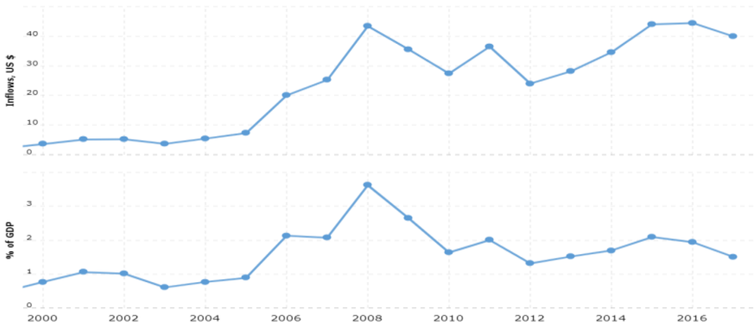
1. H_{2}- the country's economy grows favourably as a result of fdi.



figure(6.22

The nominal gdp of india at current prices has been expanding since liberalisation, as seen in figure 6.2.2. Through its contribution to capital formation and technical advancement, the neo classical growth model identifies a positive relationship between fdi and gdp. Gdp is undoubtedly the most comprehensive indicator of a country's economic performance because it provides the total value of the products and services generated in that nation during a specific year. In 1991, india's gdp was rs. 5,86,212 crore. It reached rs 1,35,76,056 crore in 2016 after around 25 years. India's gdp surpassed the $2 trillion barrier in 2015–16. India's proportion of global fdi inflow increased from 0.05 percent in 1992 to 2.2 percent in 1997 during the first decade of economic reforms from 1991 to 20001. (nagaraj, 2003). The upward trend in gdp following economic liberalisation demonstrates the benefits of fdi inflows. The link between india's gdp and fdi inflows from 2000 to 2016 is depicted in figure 6.2.3. In the endogenous growth models, fdi boosts returns through spillover and technology transfer, which leads to growth. The graph below depicts the relationship between fdi and gdp from 2000 to 2016. It is evident that there is a positive correlation between gdp swings and fdi inflows, demonstrating that fdi benefits india's gdp. As fdi directly influences the gdp of the nation, it consequently has a positive and considerable impact on the indian economy.

figure: 6.2.3



source: macrotrends

Since fig.6.2.3 clearly demonstrates that a rise in fdi inflows boosts gdp as a result, we conclude that hypothesis h2 is accepted and that fdi has a beneficial influence on the indian economy.

findings and recommendations

Finally, it can be said that by obtaining a respectable quantity of fdi during the past three decades, emerging countries have impacted the economies of industrialised countries. India is the eighth most popular destination for foreign direct investment (fdi) worldwide in 2019, and fdi has been flowing freely into the country since 1991. Even though the indian economy has slowed down in 2019, international investors have continued to spend heavily in the country. 2019 saw an increase of 16 percent from $42 billion in 2018 to $49 billion in foreign investments in india. Its economy is now the second-fastest expanding in the world. India is making its presence known in the world's globalised economies as a founding member of the gatt, the wto, a signatory to safta, and a member of miga. The study's key conclusions are highlighted in this chapter along with some insightful advice.

findings:

The following are the study's primary conclusions:

2. the data shows that there has been an increased trend in fdi inflows between 2000 and 2019. India's contribution to global fdi increased from 0.7 percent in 1996 to 1.3 percent in 2007. This is a result of the nation's ongoing economic reform process since 1991, during the post-liberalization era.
3. since economic liberalisation has proceeded, india has experienced two decades of economic growth with the majority of years seeing 7 percent or above. With a share of almost 75%, india became a significant recipient of foreign direct investment in the south asia area in 2007. As a result, the indian economy consistently outperforms other major economies.
4. according to the examination of the relationship between fdi and gdp growth in india, fdi has a favourable effect on the economy. Fdi increases capital inflow, exports, employment possibilities, and financial services promotion. It also aids in bringing currency rate stability.
5. since 1991, india has received a sizable amount of fdi, and regardless of the government's ruling party, the flow's general direction has stayed constant.
6. india has maintained double tax avoidance agreements (dtaa) with close to 70 nations in order to have a generous flow of fdi.
7. it has been discovered that india's list of fdi suppliers has grown since 1991. Before independence, there were only a select few nations (the uk, japan). India got fdi from the uk, us, japan, germany, and other countries after gaining independence from the british colonial era. In 2008, 120 nations made investments in india, compared to 15 nations in 1991. Following 1991, the list of significant investors in india mostly includes mauritius, south korea, malaysia, cayman islands, and many more nations. This longer list of fdi inflows' origins demonstrates that india has been successful in regaining the trust of foreign investors through its ongoing economic reforms. Between april and december 2019, fdi stock inflows to india totaled us $36.79 billion. According to data for 2019–20, the service industry, which drew us$ 6.52 billion in fdi equity inflow, was followed by the telecommunications sector, us$ 4.29 billion, computer software and hardware, us$ 6.34 billion, and trading, us$ 3.52 billion. India attracted the most foreign direct investment (fdi) equity inflows from singapore in 2019–20 ($11.65 billion), followed by mauritius ($7.45 billion), japan ($2.80 billion), and the united states ($2.79 billion).

recommendations:

Thus, it is concluded that fdi is essential for india's continued economic growth and development as a strategic component of investment. For the development of new industrial industries, the expansion of already existing ones, and the formation of new ones, fdi is essential. In fact, it is required for long-term financial projects as well as for the healthcare, education, r&d, infrastructure, and retail industries. The analysis therefore suggests the following ideas:

1. The study exhorts policymakers to concentrate more on luring various kinds of fdi.
2. The decision-makers should develop policies that will allow foreign investment to be used to increase domestic production, savings, and exports, as well as to spread technology and provide access to the global market.
3. The government is advised to advocate for the rapid improvement of infrastructure sector requirements, which are crucial for economic activity diversification.
4. Government should make sure that fdi inflows are distributed fairly among the states. States need more freedom from the federal government so they can set their own levels for attracting fdi inflows.
5. In order to enhance the demand for unskilled labour and low-skilled services as well as the salary level in these fields, the government should open its doors to international enterprises.
6. The government must focus on luring particular forms of fdi so that they can provide spillover effects in the whole economy by investing in human capital, r&d activities, environmental activities, dynamic products, and production capacity.
7. Government efforts should focus on attracting fdi that will considerably increase domestic competitiveness, improve skills and technological learning, and invariably result in social and economic rewards.
8. in order to increase trade within this region through bilateral and multilateral agreements as well as by signing free trade agreements with the burgeoning asian economic giants, the government must pay attention to the emerging asian continent as

the new economic powerhouse of business transactions.

Conclusion

The correlation between fdi and macroeconomic measures like gdp leads one to believe that fdi is crucial in promoting economic expansion. India has a comparative advantage over other nations in luring fdi because of its inexpensive labour, which is a result of low inflation, and its geographic proximity to oecd nations. The high growth rate of gdp during the post-reform period had an impact on both the growth rate of gdp and the return on investment, which helped to draw in more fdi and foreign investors. In 2019, india attracted usd 51 billion in foreign investment1 (india 9th largest recipient of fdi in 2019: un, 2020). According to the unctad's world investment report 2020, india was the ninth-largest recipient of fdi in 2019. Additionally, it stated that india's enormous market and slower but still good economic development in the wake of the covid19 outbreak will keep foreign investors drawn to the nation. India was one of the top 5 fdi host economies worldwide in the "emerging asia" region. As a result, the official statistics from the world bank indicates that india's gdp was valued 2875.14 billion dollars in 2019. This paper's main goal was to examine the effects of fdi inflows in india and their pattern from 2000 to 2019. We observed that fdi not only exhibited an upward trend during the specified years, but also had a favourable impact on the nation's gdp. The potential contribution of fdi to global gdp has existed since the economic reforms of 1991 and continues today. The neo-classical and endogenous growth theories both contend that fdi significantly boosts a nation's total gdp production. Therefore, the nation's policies should be such that they draw in more foreign investors, which, in addition to raising gdp rates, would also result in more employment possibilities and access to advanced technology.

References:

Books:

1.N gregory mankiw (2005), macroeconomics, seventh edition, harvard university.

2.Dornbusch, fischer, and startz (2010), macroeconomics, mcgraw hill, 11th edition

Magazines and newspaper articles:

1.Bhavya malhotra (2014): “foreign direct investment: impact on indian economy” global journal of business management and information technology.

2.Sarbapriya ray (2012), “impact of fdi on economic growth in india: a co-integration analysis”

3.Vn balasubramanyan vidya mahambare (2003)-“foreign direct investment in india”

4.Dr. Swapna s. Sinha, dr. David h. Kent and dr. Hamid shomali (2007) “ comparative analysis of fdi in china and india”.

5.Souangsu banerjee (2013), “effects of fdi in indian economy”.

6.Sharma rajesh kumar (2006), “fdi in higher education: official vision needs correction”

7.Sameul adam (2009), “can fdi help to promote growth in africa”

8.Balakrishnan p (2005): ―macroeconomic policy and economic growth in the 1990s”, economic and political weekly, xxxx, 3969-3977.

9.United nation conference on trade and development (unctad) 2019, world investment report (wir)

10.United nation conference on trade and development (unctad) 2018, world investment report (wir)

11.United nation conference on trade and development (unctad) 2017, world investment report (wir)

12.Economic survey 2018-19