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Impact of Foreign Direct Investment on Economic Growth of India

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ABSTRACT

Nations desiring for sustainable economic growth has to explore global opportunities and FDI (Foreign Direct Investment) helps in achieving significant development for the economy. FDI is considered to be the most essential medium of development in the emerging sectors of an economy. India is an emerging market globally due to its various prospering aspects like cheap labour, greater market size and abundance natural resources etc. which attract foreign investors for better prospects in various sectors. The present paper aims to study the trends of FDI in the country and understand the reason behinds its fluctuations. This study was conducted to investigate the trends of FDI in India and to find out the impact of Make in India policy on FDI. The study also aimed to understand the role of FDI for the development of a nation. It was found that India succeeded in attracting foreign investors after the launching of Make in India policy and various other government reforms. In India, various sectors are emerging, for example - tourism, transport, communication, health and education. These sectors desperately require FDI for its prosperity and development. Besides, FDI is also an ideal solution for socio-economic problems like unemployment, deficit BOP (Balance of Payment), technological incapability and lack of sufficient foreign exchange. To get the desired level of economic growth, the best outcome comes in the form of FDI where a developed country invests through its capital and latest technology in a developing nation and explores its natural and human resources.

Keywords: Foreign Portfolio Investment, NRI, FIPB, DTAA, Technology transfer, GAAR.

INTRODUCTION

The fast and steadily growing economy of India in majority of its sectors, has made India one of the most famous and popular destinations in the whole world, for Foreign Direct Investment. India's ever-expanding markets, liberalization of trade policies, development in technology and telecommunication, and loosening of diverse foreign investment restrictions,

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have further collectively made India, the apple of investors' eye, for most productive, profitable, and secure foreign investment. India's perception abroad has been changing steadily over the years. This is reflected in the ever growing list of countries that are showing interest to invest in India. Mauritius emerged as the most dominant source of FDI contributing 44 % of the total investment in the country. Singapore was the second dominant source of FDI inflows with 9% of the total inflows. However, USA slipped to third position by contributing 7% of the total inflows. UK occupied fourth position with 5% followed by Netherlands with 4%, Japan with 4%, Cyprus with 4%, Germany with 3%, France with 1%, UAE with 1%.

According to the Department of Industrial Policy and Promotion (DIPP), total FDI investments in India in the first nine months of fiscal year (FY) 2019 (April – December 2018) were approximately US$ 33.5 billion. The services sector attracted the highest FDI equity inflow of US$ 6.5 billion, followed by computer software and hardware – US$ 4.9 billion, and telecommunication – US$ 2.2 billion. The top sources for the FDI were Singapore, with US$12.9 billion, Mauritius US$6 billion, Netherland US$2.9 billion, and Japan US$2.2 billion. Mauritius is a favorite hotspot for foreign investors, Indians living overseas, as well as Indian companies to route money into or out of India.

REVIEW OF LITERATURE

Review of various literatures available on FDI reveals that foreign investment is still a matter of debate. Whether FDI is boom or bane for host countries economic growth and development? Opinions are still divided. FDI has its own advantages and disadvantages. Many scholars argue that through FDI developed nations may try to invade the sovereignty of host country. In order to earn quick profit, they may exploit the natural resources at the faster rate and thus leave the host country deprived in the long run. Many are of the opinion that basic objective of foreign investments is to earn profits by ignoring the overall social & economic development of the host nation. Thus, an attempt has been made to discuss various issues raised by different scholars on the subject.

K S Chalapathi Rao, Professor, and ISID-NewDelhi-2016: Most of the FDI coming into India through Mauritius, Singapore and Cyprus are actually from the U.S. or from India-related investors. The Mauritius route is used for availing tax benefits and for ensuring anonymity. FDI from Mauritius is however sector-agnostic unlike FDI from countries like Japan, Germany and France, which are mostly in manufacturingrelated sectors. The Singapore route is used mostly by Indian entities with a regional office there.

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SanghamitraSamal and D.Venkatrama Raju (2016) in their research paper "A study of Foreign Direct Investment (FDI) on Manufacturing Industry in India", they analysed the role and importance of FDI in manufacturing sector. The analysis had taken two variables to study the impact on the manufacturing sector of the country and how it affects the economic growth.

GDP. K. Narayanaswamy et.al (2016), observed that "Make in India" initiatives will strengthen India‟s manufacturing sector. The campaign has been concentrating to fulfil the purpose of job creation, enforcement to secondary and tertiary sector, boosting the national economy, converting India to a self-reliant country and to give the Indian economy global recognition.

Chee Y. L., Nair M. (2010), "The Impact of FDI and Financial Sector Development on Economic Growth: Empirical Evidence from Asia and Oceania" observed that financial sector development enhances the contribution of FDI on economic growth in the region.

Jose Manuel Durao Barroso, President, European Commission (2013): Europe is India's largest source of foreign direct investment with a stock of 34.4 billion euros and India's investments in Europe is also fast reaching 7 billion euros. There is scope to grow much more. European FDI in India for instance is half the amount of that in China, or a quarter of that in Russia, or a fifth of that in Brazil.

E & Y Survey (2014): The global survey of E& Y has ranked India as the most attractive investment destination followed by Brazil and China at second and third positions, respectively.

Chandan Chakraborty, Peter Nunnenkamp (2004) in their study "Economic Reforms, FDI and its Economic Effects in India" assess the growth implications of FDI in India by subjecting industry – specific FDI and output data to Granger causality tests within a panel co -integration framework. It turns out that the growth effects of FDI vary widely across sectors. FDI stocks and output are mutually reinforcing in the manufacturing sector. Most strikingly, the study finds only transitory effects of FDI on output in the service sector, which attracted the bulk of FDI in the post – reform era. These differences in the FDI – Growth relationship suggest that FDI is unlikely to work wonders in India if only remaining regulations were relaxed and still more industries opened up o FDI.

OBJECTIVE OF THE STUDY

1. To analyse the trend of FDI in India.
2. To analyse the relationship between FDI and FII in India.

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3. To analyse the relationship between FDI and economic growth.

RESEARCH METHODOLOGY

The above objectives have been studied through the use secondary data. The secondary data has been collected from, various secondary sources such as published reports RBI, Department of Industry Policy and Promotion, World Bank, IMF etc.

TREND OF FDI IN INDIA

Foreign direct investment (FDI) in India seems to be petering out with the inflows growth rate recording a five-year low of 3 per cent at USD 44.85 billion in 2017-18. According to the latest data of the Department of Industrial Policy and Promotion (DIPP), FDI in 2017-18 grew by only 3 per cent to USD 44.85 billion. Foreign inflows in the country grew by 8.67 per cent in 2016-17, 29 per cent in 2015-16, 27 per cent in 2014-15, and 8 per cent in 2013-14. However, FDI inflows recorded a negative growth of 38 per cent in 2012- 13.

According to experts, it is critical to revive domestic investments and further ease of doing business in the country to attract foreign investors. Anil Talreja, Partner, Deloitte India, said the low growth of FDI in the consumer and retail sectors can be mainly attributed to uncertainty and complexity of the FDI policy. "While the government has taken substantial efforts in relaxing the regulations as well as removing ambiguities, global consumer and retail companies are still hesitant to take decisions to invest in India," he said.

India has done considerably well in terms of moving up the ranking in terms of ease of doing business, however, it needs to reach a level that creates enthusiasm for the overseas investors, Talreja added. Biswajit Dhar, professor at Jawaharlal Nehru University, said, "The status of economy reflects the magnitude of the FDI in a country. In the past couple of years, we have seen decline in domestic investment rate and now, FDI is following that suit." He said that the government needs to take steps for reviving the domestic investment to attract foreign investors.

An UNCTAD report, too, has recently stated that the foreign direct investment in India decreased to USD 40 billion in 2017 from USD 44 billion in 2016 fiscal. However, outflows from India, the main source of the FDI in South Asia, more than doubled to USD 11 billion, the report stated. UNCTAD Secretary-General Mukhisa Kituyi has said, "Downward pressure on the FDI and slowdown in global value chains are a major concern for policy makers worldwide, and especially in developing countries". The main sectors that received maximum foreign inflows in the last fiscal include services (USD 6.7 billion), computer software and hardware (USD 6.15 billion), telecommunications (USD 6.21 billion), trading (USD 4.34

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billion), construction (USD 2.73 billion) automobile (USD 2 billion) and power (USD 1.62 billion).

Mauritius has emerged as the largest source of FDI in India with USD 15.94 billion in 2017-18 followed by Singapore (USD 12.18 billion), Netherlands (USD 2.8 billion), the US (USD 2.1 billion) and Japan (USD 1.61 billion). Further, the data showed that the FDI equity inflow of USD 44.8 billion in 2017-18 is the highest ever for any financial year. FDI is important as India would require huge investments in the coming years to overhaul its infrastructure sector to boost growth. Decline in foreign inflows could put pressure on the country's balance of payments and may also impact the value of the rupee.

FDI INFLOW YEAR WISE

Source/ Industry	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	Total
Communication Services	1,256 (6.39%)	1,075 (5.46%)	2,638 (13.42%)	5,876 (29.89%)	8,809 (44.82%)	19654	19654
Manufacturing	6,381 (14.67%)	9,613 (22.11%)	8,439 (19.41%)	11,972 (27.54%)	7,066 (16.25%)	43471	43471
Retail & Wholesale Trade	1,139 (7.62%)	2,551 (17.07%)	3,998 (26.76%)	2,771 (18.55%)	4,478 (29.97%)	14937	14937
Financial Services	1,026 (6.64%)	3,075 (19.90%)	3,547 (22.95%)	3,732 (24.15%)	4,070 (26.34%)	15450	15450
Computer Services	934 (7.46%)	2,154 (17.20%)	4,319 (34.50%)	1,937 (15.47%)	3,173 (25.34%)	12517	12517
Business services	521 (5.25%)	680 (6.85%)	3,031 (30.55%)	2,684 (27.05%)	3,005 (30.28%)	9921	9921
Electricity and other energy Generation, Distribution & Transmission	1,284 (17.06%)	1,284 (17.06%)	1,364 (18.39%)	1,722 (22.88%)	1,870 (24.85%)	7524	7524
Construction	1,276 (12.88%)	1,640 (16.56%)	4,141 (41.81%)	1,564 (15.79%)	1,281 (12.93%)	9902	9902
Transport	311 (7.20%)	482 (11.17%)	1,363 (31.59%)	891 (20.65%)	1,267 (29.36%)	4314	4314
Miscellaneous Services	941 (18.09%)	586 (11.26%)	1,022 (19.65%)	1,816 (34.92%)	835 (16.05%)	5200	5200
Restaurants and Hotels	361 (12.81%)	686 (24.34%)	889 (31.54%)	430 (15.25%)	452 (16.03%)	2818	2818
Real Estate Activities	201 (19.60%)	202 (19.70%)	112 (10.92%)	105 (10.24%)	405 (39.51%)	1025	1025
Education, Research & Development	107 (9.03%)	131 (11.06%)	394 (33.27%)	205 (17.31%)	347 (29.30%)	1184	1184
Mining	24 (2.46%)	129 (13.27%)	596 (61.31%)	141 (14.50%)	82 (8.43%)	972	972
Trading	0 (0%)	228 (100%)	0 (0%)	0 (0%)	0 (0%)	228	228
Others	293 (20.40%)	232 (16.15%)	215 (14.97%)	470 (32.72%)	226 (15.73%)	1436	1436

Source: RBI Monthly Bulletin

It is known that on "Communication Services" is first in foreign Direct Investment Flows to India. At 2013- 2014 the FDI was 6.39%it progressively increases into 44.82% at 2017-2018.

It is clear that on "Manufacturing" is second in foreign Direct Investment Flows to India. At 2013-2014 the FDI was 14.67%it gradually increases into 16.25%at 2017-2018.

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It is seen that on "Retail & Wholesale Trade" is fourth in foreign Direct Investment Flows to India. At 2013- 2014 the FDI was 7.62% it increasingly increases into 29.97% at 2017-2018. It is noted that on "Financial Services" is third in foreign Direct Investment Flows to India. At 2013-2014 the FDI was 6.64% it progressively more increases into 26.34% at 2017-2018. It is observed that on "Computer Services" is fifth in foreign Direct Investment Flows to India. At 2013-2014 the FDI was7.46%it progressively more increases into 25.34% at 2017-2018.

It is learn that on other Sector-wises in foreign Direct Investment Flows to India. At 2013-2014 the FDI percentage was it progressively more increases on the basis of Table-2 into at 2017-2018.

FINDINGS

- After the launch of Make in India, the trends of FDI has shown positive influence over the foreign investors due to investor friendly signals received from India.
- India has jumped from 15th position in 2014 to 10th position in 2015 in the most trusted nations for FDI.
- India has managed to receive $40 billion foreign investment during 2015-16 which is more than 30% from the previous year. (UNCTAD, 2016).
- Singapore has the highest FDI in India during the year 2015-16.
- Financial crises results in the withdrawal of FDI for that specific time period.
- India has the largest FDI in service sectors by 19.51% of total FDI.
- FDI are attracted towards Construction Development by 11.56%.
- The FDI is significantly contributing in the economic development of India as it has the positive correlation coefficient of 0.6 with Indian GDP.
- Service sector of India is the second fastest growing services sector with CAGR at 9 per cent, just below China's 10.9 per cent, during the last 11-year period from 2001 to 2012 and that why the Indian service sector shares maximum share of the total FDI in India.

CONCLUSION

The study showed that the fastest growing service sector are transport, tourism, health and communication which are the top most pick for the foreign investors. The study also shows that the highest foreign investment in India during 2015-16 was from Singapore. The study also shows that Inward FDI gives long term benefits to the investing firm by enjoying the surplus profit generation and helps in overcoming the socio- economic problems of hosting

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nations like unemployment by generating employment opportunities in local economy. It eradicates technological backward problem through technological transfer. It allows to access in the global market platform for the firms and evolve better product through increase in market competition.

The FDI trend in Indian Economy is moving in upward direction that too with the good speed. On the basis of above analysis, it is quite evident to say that Indian economy is one of the most promising investment destination for most of the developed and developing nations. And we should grab this opportunity by liberalizing the rule and regulations for FDI in India. But one question that is striking my mind is that in spite of having good inflow of FDI in India just after the recession period. Why we are not able to attract more FDI. As the growth rate of FDI in India for the period of 2010 to 2014 is not much attractive. So we need to find some factors that are causing slowdown of FDI inflow in Indian Economy.

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