



Analysis on Foreign Direct Investment and Economic Growth in India

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Abstract

The aim of this research paper is to examine the foreign direct investment in India. The study is based on secondary source of data collected from Reserve Bank of India, during the period 2000-01 to 2017-18. The result of the study reveals that inflow of foreign direct investment consistently increased in India, but outflow of foreign direct investment inconsistent during the study period. The highest inflow of Rs.2,942.58 billion and outflow of Rs. 905. 39 billion with respect to 2015-16 and 2008-09 respectively. The study suggests that foreign direct investment is important for increase export, increase production; reduce trade deficit, increase of foreign exchange reserves and increase government revenue in India. Therefore, it is also suggests that policies feasible is important for attract more inflows in India. The study signifies that foreign direct investment is important for development of Indian economy.

Keywords: foreign direct investment and economic growth in India

Introduction

India has seventh largest economy and emerging developing country in the world. In terms of population the second largest population in the world of over 130 crores in India. Foreign Direct Investment in India is the major monetary source for economic development in India. The foreign companies invest directly in private Indian business. Foreign Direct Investment is considered to be long term investment. Most of the countries, irrespective of their being a developed or a developing economy, seek more foreign direct investment inflow for growth and development. According to International Monetary fund (2013), developing countries created a history when they received more foreign direct investment than the developed countries in 2012. The developing countries are more attracting investment-wise investments. In fact, the increase in the thrust for foreign direct investment across countries has created a competitive among them to attract more foreign direct investment. On the other hand, foreign investors are attracting by high return promised by the developing economy in India. India required foreign direct investment to growth rapidly and develop its infrastructure in order to improve the standard of living of the people. The different sectors of the economy attracted foreign direct investment due to a variety of reasons. Foreign direct investments improve economic growth and development in the host countries which has lead to the emergence of global competitive to attract foreign direct investment. Investment has always been an issue for the developing economies such as India.

Therefore, foreign direct investment has become a battle ground on the emerging market like India. A report of UNCTAD survey report indicate that India as the second most important FDI destination after China for transnational corporation. Major investment sectors in India are service, telecommunication, construction activities, computer software and hardware and automobiles etc. Foreign direct investment routes of India company may receive foreign

direct investment under the two routes are as; a). Automatic Route. Under this route foreign direct investment in sectors/ activities to the extent permitted under the automatic route does not required any prior approval either of the government or Reserve Bank of India. b). Government Route foreign direct investment activities not covered under the automatic route requires prior approval of the Government which are considered by the Foreign Investment Promotion Board, Department of Economic Affairs and Ministry of Finance, foreign investment plays a significant role in developing of any economy like India. Many countries provide many incentives for attracting the foreign direct investment. The global countries and their policy are favourable to attract investment from overseas countries which are abundant in capital resources. The countries which are developed are focusing on new market where there is availability of abundant labour, scope for production and high profit are achieved.

The South Asian Association for Regional Cooperation (SAARC) trade is found quite low as compare with of other regional forums such as European Union (EU) and Association of South East Asian Nation (ASEAN). The South Asian economics, also called as SAARC, consist of eight south Asian nations such as Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. India economics are facing trade and current account deficit. Therefore, government of India promote and welcoming foreign direct investment in India. In the global countries like Mauritius, Singapore, United State and United Kingdom were among the leading sources of foreign direct investment in India. The next section of the study relates to review of literature.

Review of Literature

1. Anitha R (2012) ^[1] in her research paper analysed foreign direct investment inflow into the country during the post liberalization period. Her study is based on secondary source of data collected from Reserve bank

of India, Economic Survey, Department of Industrial Policy and Promotion and Central Statistical Organisation. The foreign direct investment inflow into the country projected for a period of five year from 2010 to 2015 used by Auto Regression Integrated Moving Average (ARIMA) foresting technique. Her research paper examined the various set of factors measures to increase the flow of foreign direct investment and the causes for low inflow and suggested remedial measures to increase the flow of FDI in India.

2. Abhishek Vijaykumar Vyas (2015) ^[2] investigated on foreign direct investment flow in India during 2000 to 2015. This study is based on secondary source of data collected from Ministry of Commerce and Industry, Department of Industrial Promotion and policy of government of India, Reserve Bank of India and World Investment Report. The study was examined the countries wise approval of foreign direct investment inflows to India and the FDI inflows in different sectors. This study shows that foreign direct investment highest source from Mauritius, because in India has Double Taxation Avoidance Agreement with Mauritius.
3. Ajay B Massand and Gopalkrishna B.V (2017) ^[3] determine the motives behind bank foreign direct investment inflow in India. Their study was investigated a country-wise panel was constructed and bank foreign direct investment data collected during the period 2001 to 2013 was analyzed through generalized method of movement, a dynamic panel data model. They found that bank FDI follows overall FDI, indicated that foreign bank follow their clients from their home country to serve them in the host country. They suggested that increase the FDI cap in banking sector to attract more foreign direct investment and further relax the current restrictive policy on entry of foreign bank in India.
4. Neetu Sing and Balbeer Singh (2017) ^[4, 5] examined the foreign direct investment is the major monetary source for economic development in India. The foreign companies invest directly in fast growing private Indian business to take benefit of cheaper wage and changing business environment. India allows FDI in most sectors through the Automatic route, but in certain segments that are considered sensitive for the economy and security; the proposals have to be first cleared by Foreign Investment Promotion Board in India.
5. Suranjana Nabar Bhaduri (2018) ^[7] in his research paper investigated the sustainability of relying on capital inflows, remittances and services exports to sustain these persistent trade and current account deficits. The study shows that all three sources entail

elements of current account deficits in India. His study found that capital inflow risks of financial fragility, with short term inflows and external commercial borrowings becoming more prominent in the Indian economy. Trade balance and current account have shown persistent deficits for a major part of its post-independence period in India.

6. Priyanka Bedi and Ekta Kharbanda (2014) investigated countries around the world both developed and developing are taking concerted efforts in abide to attract flow of foreign direct investment into their economy. They examined the statuses of foreign direct investment inflow into India and identify the problems and issues that have made India less attractive destination as compared to other nations. The study is insight on the steps that Indian government taken and also some lesson that India can learn from countries like China to increase the attractiveness of India as and FDI destination.

After reviewed the above literature, it is found that no study was available related to inflow and outflow of foreign direct investment of India. In this context, this research paper was an attempt to understand the foreign direct investment trend in India. The following objectives are as given below.

Objective of the study

1. To understand foreign direct investment in India.
2. To analysis of inflow and outflow of foreign direct investment growth.
3. To suggest sustainable measures to promote foreign direct investment in India.

Methodology

This section of the study give details relating to methodology adopted in the present study towards fulfilling the objectives stated above. The present study is based on secondary sources of data for the period 2000 to 2017 was collected from Reserve Bank of India, Economic Survey, Department of Industrial Policy and Promotion and UNCTAD reports etc. This study used tools like percentage and graphical representation.

Analysis and Discussion

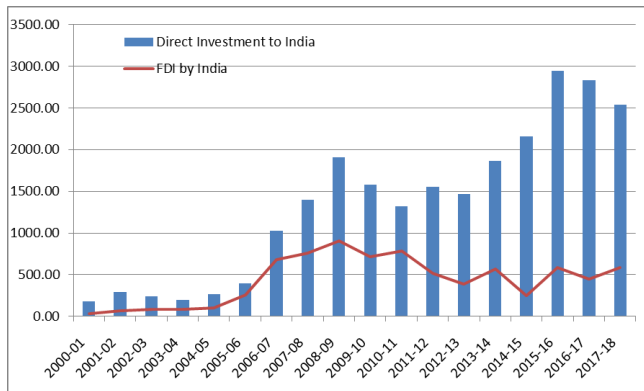
In this section an attempt is made to understand on foreign direct investment in India. The data were systematically processed in the tabular form and made suitable for exhibit inflow/ outflow of foreign direct investment in India. The details of foreign direct investment in India is presented in the below table.

Table 1: Foreign Investment in India

Year	Direct Investment to India	FDI by India	Net Foreign Direct Investment	Net Portfolio Investment	Total
2000-01	184.04	34.80	149.24	118.20	267.44
2001-02	292.45	66.15	226.30	92.90	319.20
2002-03	243.97	88.03	155.94	45.04	200.98
2003-04	198.30	88.86	109.44	518.98	628.42
2004-05	269.47	102.02	167.45	413.12	580.57
2005-06	394.57	260.32	134.25	553.57	687.82
2006-07	1026.52	677.42	349.10	318.81	667.91
2007-08	1394.21	756.43	637.76	1106.19	1743.95
2008-09	1906.45	905.39	1001.06	-650.45	350.61
2009-10	1578.19	718.36	859.83	1539.67	2399.51
2010-11	1323.58	782.57	541.01	1393.81	1934.82

2011-12	1549.61	517.94	1031.67	855.71	1887.38
2012-13	1469.54	387.68	1081.86	1464.67	2546.53
2013-14	1868.30	568.60	1299.69	296.80	1596.50
2014-15	2158.93	246.75	1912.19	2578.53	4490.72
2015-16	2942.58	584.76	2357.82	-272.03	2085.79
2016-17	2832.92	443.79	2389.13	504.82	2893.94
2017-18	2539.77	589.25	1950.52	1426.32	3376.84

Source: Reserve Bank of India



Source: Reserve Bank of India

Fig 1: Foreign Investment in India

Table # 1 shows that foreign direct investment in India. From the above data indicates that consistently increased foreign direct investment to India. The FDI inflows has increased from Rs.184.04 billion in 2000-01 to Rs. 2539.77 billion in 2017-18. The increased over the period was 8.777 times. The highest foreign direct investment received has been observed Rs. 2932.92 billion in 2015-16. The lowest FDI received has been registered Rs.184.04 billion in the year 2000-01. The outflow of foreign direct investment has increased from Rs.34.80 billion in 2000-01 to Rs. 589.25 billion in 2017-18, whereas foreign direct investment by India inconsistent recorded during the study period. The foreign direct investment inflow during the study shows that in 2011-12 to 2014-15 a downtrend of foreign direct investment is observed. This fall in FDI inflow into the country is expected to further decline during 2013-14 and 2014-15, the fall is growth of FDI inflow is found in the study. Based on the research there is a strong confirmation for arises of inflow of foreign direct investment from overseas countries from past few years. Therefore, it is suggested that focused on feasible policies to attract more inflows into India. It is observed from the table that the over the period foreign direct investment improved which is significant for economic development.

Suggestion and Conclusion

The research study is based on foreign direct investment in India. The result of study evidenced that inflow of investment consistently increased whereas outflow is inconsistent in India. The study suggests that policy intervene in order to curtail import from overseas countries. India should on good trade relations with its exporting partners to decline trade barriers and encourage economic of scale production. The major investment countries such as Mauritius, Singapore, Japan, United Kingdom, Netherlands, USA, German, Cyprus, France and UAE more focus on all these countries as well as to promote for investment improve in India. Therefore foreign is a predominant and vital factors in influencing the global economy development. This reveals that consistently inflow of

investment effect to promote export, increase production, reduces trade deficit and increase of foreign exchange reserves in India. The study result suggests that to promote more inflows for the betterment of wellbeing of the India’s economy.

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