



Impact of foreign direct investment: Some recent evidence

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Abstract

Foreign investment plays a vital role for Indian economy. Foreign investment is the way to fulfil the gap between foreign and household savings. Foreign Direct Investment is the most important tool for our Indian economy who invests in our companies and fulfils the gap of the lack of capital for industries. The objective of the paper is to find out the growth rate of Foreign Direct Investment (FDI) and impact of FDI in Indian economy. In this paper secondary data have been used from 2000-'01 to 2018-'19. Data have been collected from various website. This paper concludes that service sector is the attractive sector for inflow of FDI. Mauritius is the country from which flow of FDI is very high.

Keywords: foreign direct investment (FDI), economic growth, sectorial growth

1. Introduction

For economy growth, most probably country wants capital and debts which is provided by internal fund as well as international fund. Internal fund is not enough for industrial development So, Foreign Direct Investment and Foreign Portfolio Investment finds necessary for our country in development of industries. Industrial development is a parameter of the developed country. Along with industrial growth, the stock market and money market also grow through which FDI and FPI's flow enter in our country and play a role of development of industries. It is a well-known business rule that doing business with someone else's capital instead of doing it with own's capital. Considering this rule if we develop our country, we also invite FDI to invest in our industry by providing favourable rules and regulations. In our country raw material, skills, labours and other facilities are available easily and at low cost. This is also an important factor to attract FDI flows. Though India is a developing country, the incremental GDP growth rate from last few years also attracted FDI flow.

2. Review of Literature

Dr. S. M. Tariq Zafar, Dr. Waleed Hmedat, Syed Ashfaq Ahmed (2017) ^[2] "An Analytical Study on Foreign Direct Investment (FDI) and its Relative Impact on Indian Economy", the objective of the study was to find out the impact and policy of FDI. Other objective was to study the overall development of Indian economy. Secondary data was selected for the study. The period of the study was 2011 to 2016. For the purpose of the study, data were collected from websites, magazines, RBI reports, articles etc. The researcher found that many sectors were attracted FDI inflow like service sector, infrastructure sector. This paper concluded that there was a positive relation between impact of FDI and its growth. At last researcher recommend that Government must change the policy and also revise the rules.

Vyas Abhishek Vijay Kumar (2015) ^[5] "An Analytical Study of FDI in India (2000-2015)", the main objective of the study was to find out the FDI policy and requirement of FDI. This study focused the trend of FDI flow in India and also tried to find out the section wise inflow of FDI. Secondary data was collected with the help of websites, reports, magazines etc. Analytical research was used. The period of the study was 2000 to 2015. The researcher concluded that in India FDI played an important role for development of India. For create employment, FDI's role was very important. FDI was basement for small scale industries. Dr. Jasbir Singh, Ms. Sumita Chadha, Dr. Anupama Sharma (2012) ^[1] "Role of Foreign Direct Investment in India: An Analytical Study", the objectives of the study were to find out the trend of FDI and FII for growth of economy. They have also studied the gap between saving and investment. Researcher also tried to find out the required amount for foreign investment. For the purpose of the study, secondary data was collected through books, journals, magazines, websites etc. Researcher covered a sector wise FDI flow in India, Foreign exchange reserve in India, Portfolio Investment & FDI in India. Researcher concluded that developed country had attracted flow of foreign investment in comparison to developing countries. Inflow of foreign investment was suitable for Indian economy and its development. Shikha Singh (2009) ^[3], "Foreign Direct Investment and Economic Growth of the states of India", the objective of the study was to find out the factors contributed to flow of FDI and the growth of FDI inflow in India. Secondary data was collected from different websites. Sector wise FDI inflows, country wise FDI inflows, RBI's regional office wise FDI equity inflows were be included in this research paper. Researcher found that with the help of FDI, many states like Bihar, Jharkhand were improving their growth. Researcher concluded that the state should adopt

such rules and regulations for FDI at macro level which remove the global crisis and help for development.

S. Narasimha Chary and V. Gangadhar (2006)^[4] “Foreign Direct Investment- A Study of India and China”, the objective of the study was to analyse the trend of FDI inflow in Asian countries. Researcher also tried to find out the reason for low FDI in India. Secondary data were collected from websites, RBI publication, other government publication etc. for this study. Researcher found that China’s FDI policy was restricted than India. India was fall behind compare to China for attracting FDI benefits of economy.

3. Routes for FDI

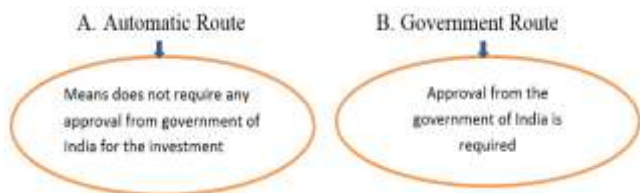


Fig 1

3.1 Types of FDI

There are six types of Foreign Direct Investment likes

1. Horizontal FDI
2. Vertical FDI

In Vertical FDI, there are two type like.

- a. Forward Vertical FDI
 - b. Backward Vertical FDI
3. Conglomerate FDI
 4. Green Field FDI
 5. Brown Field FDI
 6. Foreign Take Over FDI

3.2 Benefits of FDI

- For developing country FDI play beneficial role especially backward areas with the help of transformation.
- Because of FDI, countries make competitive environment and also break of domestic monopolies.
- The most advantage of FDI is encouraged economic growth. Because of the FDI, employer got a more jobs, so factories establish tax revenue, so government can be improve their financial infrastructure.
- FDI is the effective way to enter a foreign market.

4. Research Methodology

4.1 Objectives

- To study the growth rate of FDI inflows in India
- To evaluate the impact of FDI on the Indian Economy
- To analyse the sector wise role of FDI in India
- To suggest the recommendations with reference of FDI in India

4.2 Data collection

The secondary data have been used in this research paper.

4.3 Source of data collection

With the help of various websites, magazines, report of RBI secondary data were collected.

4.4 Period of the study

For research work, the period of the study is 2000-'01 to 2018-'19.

4.5 Tools

Trend analysis has been used for research.

5. Data analysis and Interpretation

5.1 Country wise FDI Inflow

Table 1: Country wise FDI Inflow

Sr. No.	Name of the Country	Amount of FDI Inflows (In crores US\$)	% of Total inflows
1	Mauritius	7,38,156.04	31.04
2	Singapore	5,05,946.38	21.27
3	Japan	1,73,331.56	7.29
4	Netherland	1,62,251.09	6.82
5	United Kingdom	1,40,369.58	5.90
6	USA	1,46,372.00	6.15
7	Germany	65,477.24	2.75
8	Cyprus	51,544.25	2.17
9	UAE	39,309.59	1.65
10	France	36,824.60	1.55
11	Hong Kong	22,290.81	0.94
12	South Korea	22,247.74	0.94
13	Luxembourg	17,077.52	0.72
14	Italy	15,660.57	0.66
15	Others	2,41,493.63	10.15
	Total	23,78,352.60	100.00

Source: Annual Report of RBI

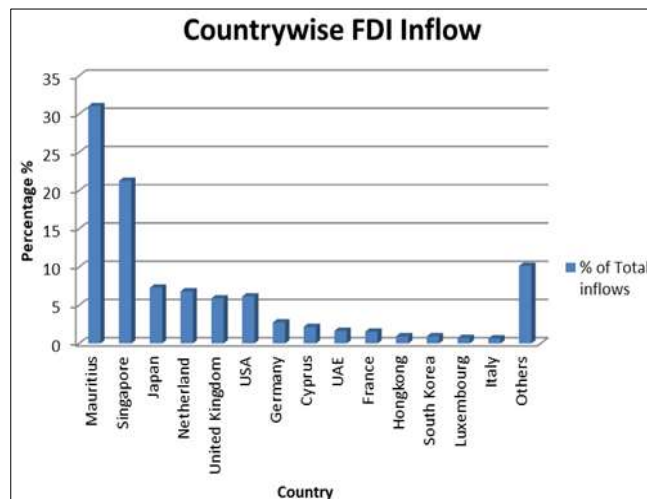


Fig 2

5.1.1 Interpretation

The above table shows country wise foreign direct investment in India. Mauritius has invested in our country in crores US\$7, 38,156.04 means 31.04% of total investment of the world. In second Singapore has invested by 21.27% of total investment.

Than Japan, Netherlands, U.S.A. etc. has also invested but their investment is in rank of 0.56 to 7.29% while 152 countries together invested 10.15% of total investment. It seems negligible at first side but in future we can get their support by getting funds from them by giving incentives facilities, concession in taxation, assurance of good return on investment etc.

5.2 Major Sector Wise FDI Inflows in India

Table 2: Major Sector Wise FDI Inflows in India

Sr. No.	Sector	Amount of FDI Inflows (In crores US\$)	% of Total inflows
1	Service Sector	4,16,301.22	17.50
2	Computer Software and Hardware	2,21,756.00	9.32
3	Telecommunications	1,88,248.66	7.92
4	Chemicals(Other than fertilizers)	91,062.19	3.83
5	Drugs and Pharmaceuticals	84,164.50	3.54
6	Power	77,889.36	3.27
7	Electrical equipment's	46,684.42	1.96
8	Petroleum and natural gas	34,952.89	1.47
9	Education	15,265.86	0.64
10	Electronics	13,204.23	0.56
11	Air transport(Including Air Freight)	11,154.95	0.47
12	Medical and surgical appliances	10,852.18	0.46
13	Railway related components	5,653.57	0.24
14	Scientific instruments	1,575.71	0.07
15	Others	11,59,586.86	48.76
	Total	23,78,352.60	100.00

Source: Annual Report of RBI

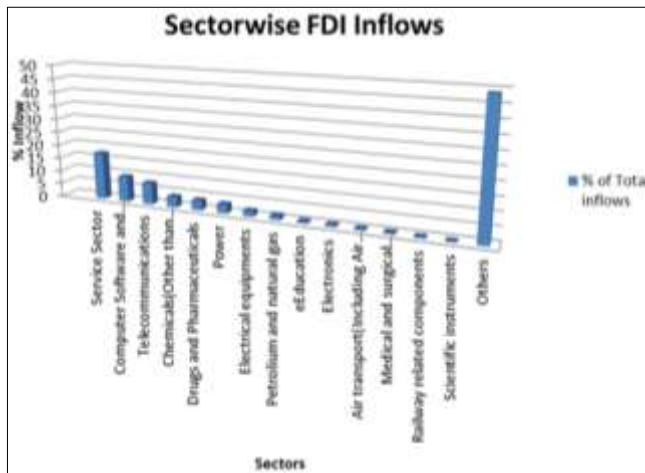


Fig 3

5.2.2 Interpretation

We can see from above table that service sector like IT, Telecommunication etc. stood first with 17.50% of total FDI inflows while computer software & hardware sector comes second with 9.32% of total FDI inflow. Than telecommunication, chemicals, drugs and pharmaceutical, powers etc. are in the range of 7.92% to 0.07% while the remaining 49 sectors got inflows by 48.76% of total inflow. Means it seems negligible but every sector has its own important and necessary for human being, so government should attract such inflow for such other sectors and make them powerful like service sector, computer sector etc.

5.3 Financial year wise FDI Inflow

Table 3: Financial year wise FDI Inflow

Sr. No.	Financial Year (April-March)	FDI flows into INDIA(In Crores US\$)	% growth over previous year
1	2000-2001	402.90	100.00
2	2001-2002	613.00	152.15
3	2002-2003	503.50	124.97
4	2003-2004	432.20	107.27
5	2004-2005	605.10	150.19
6	2005-2006	896.10	222.41
7	2006-2007	2,282.60	566.54
8	2007-2008	3,484.30	864.81
9	2008-2009	4,187.30	1039.29
10	2009-2010	3,774.50	936.83
11	2010-2011	3,484.70	864.90
12	2011-2012	4,655.60	1155.52
13	2012-2013	3,429.80	851.28
14	2013-2014	3,604.60	894.66
15	2014-2015	4,514.80	1120.58
16	2015-2016	5,555.90	1378.98
17	2016-2017	6,022.00	1494.66
18	2017-2018	6,097.40	1513.38
19	2018-2019	6,437.50	1597.79
	Total	60,983.80	

Source: Annual Report of RBI



Fig 4

5.3.3 Interpretation

The other countries of the world are eager to invest in India. Because India is a second highest population having demand of the goods & services are increasing day by day and to provide these things, company has to produce goods and service in large scale. And for that so many companies have to come for productions. In these circumstances there is a wide possibility to earn profit and everybody wish to get handsome return by dividend and capital gain and that is why FDI inflows are coming to our country. This thing is seeing in the above table No.3. In 2000-01 inflow was in crore US\$402.9 means 100%. While in 2008-09 it becomes 1039.29%. Means within 8 years inflow is 10 times more than. After 2008-09 to 2013-14 flow was slow. But from 2014-'15 to 2018-'19 it is increasing rapidly and within 8 years means the year 2018-'19 it has become 1.5 time more in comparison the year 2008-09. Thus this table proves that in developing country like India is a "Hen laying a golden egg" in

view of other countries and that is why the inflow of FDI is coming in our country is increasing day by day.

6. Remedies to be taken by Government:

- FDI inflow in the year 2000-'01 was in crores US\$402.9 while in 2018-'19 it is in crores US\$6437.50. Means it is 16 times (approximately) more. It means foreign investors have much more trust in our country but in exceptional years this flow was also slow. Government should remove those circumstances in which year such flow was slow. So that in future flow would not become slow.
- Out of 152 countries of the world, FDI inflow from Mauritius is 31.04% than Singapore 21.27%. Other 12 develop countries FDI inflow was less than above two countries. In these circumstances we should find out the drawback and take the necessary action which attracts the other countries to invest like Mauritius and Singapore.
- There are 63 sectors in our country. Out of them service sector attract 17.50% in flow of FDI while other sectors still not seeing attractive in view of FDI to invest in those sectors. Government should find out the problems and solve them, so that like service sectors, other sectors can also attract FDI inflow and these all sectors can develop in our country will be said developed country like America, Japan, UK, etc.

7. References

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