IJNRD.ORG ISSN : 2456-4184
INTERNATIONAL JOURNAL OF NOVEL RESEARCH AND DEVELOPMENT (IJNRD) | IJNRD.ORG
An International Open Access, Peer-reviewed, Refereed Journal

A STUDY ON ROLE OF FOREIGN DIRECT INVESTMENT IN THE GROWTH OF INDIAN ECONOMY (SINCE 1991)

N. Sudharani,
Final MBA-Department of Management Studies,
Sri Vasavi Engineering College,
Tadepalligudem, WG Dist., Andhra Pradesh, India
M.Vinitha,
Final MBA-Department of Management Studies,
Sri Vasavi Engineering College,
Tadepalligudem, WG Dist., Andhra Pradesh, India
S. Kalyani Durga,
Final MBA-Department of Management Studies,
Sri Vasavi Engineering College,
Tadepalligudem, WG Dist., Andhra Pradesh, India

ABSTRACT:

FDI refers to capital inflows from overseas that are invested in or used to increase the economy's production capacity. FDI and economic growth has long been a hot topic in the international growth community. In an era of uncertain global capital flows, the stability of FDI appears to be an efficient avenue for quicker growth in poor countries. It is critical to a country's long-term growth not only as a source of cash, but also for improving local competitiveness through technology transfer, infrastructure upgrading, productivity increases, and the creation of new job possibilities. In India, FDI is regarded as a developmental instrument that aids in the attainment of self-sufficiency in various sectors and the overall development of the economy. India experienced a large rise in the flow of foreign direct investment after liberalizing and globalizing its economy to the outside world in 1991. Foreign Direct Investment (FDI) is frequently regarded as a significant driver of economic growth in emerging countries such as India. Foreign direct investment influences economic growth through promoting domestic investment, increasing human capital formation, and facilitating technology transfer in host countries. The primary goal of this research is to analyse the influence of FDI on India's economic growth from 1991 to 2023.

KEYWORDS: FDI, Economic development, Capital Formation, FDI Inflows.

INTRODUCTION:

Foreign direct investment in India is a significant source of funds for the country's economic development. Foreign firms invest directly in fast-growing private Indian enterprises to capitalize on India's lower labour and changing economic environment. Economic liberalisation began in India in the aftermath of the 1991 economic crisis, and since then, FDI has gradually expanded in India,[1][2], resulting in the creation of more than one crore (10 million) jobs . For a global corporation, FDI in India is a means of expanding its influence and commercial operations by entering new consuming and manufacturing markets. It can obtain access to scarce resources like fossil fuels and precious metals, as well as professional and unskilled labour, management knowledge, and technologies. FDI also allows a company to reduce its manufacturing costs by gaining access to cheaper resources or going directly to the source of raw materials rather than purchasing them from a third party. FDI companies frequently benefit from a variety of tax advantages. This might happen when the home country allows a tax deduction on overseas revenue, or when the recipient country allows tax breaks and incentives for companies who invest in their country. Furthermore, this can occur when the beneficiary country has a more advantageous tax regime than the home country. Foreign Direct Investments (FDIs) provide production returns through positive externalities that contribute to long-term economic growth.

RESEARCH METHODOLOGY:

This is a descriptive study that relies on secondary data source analysis. A summary of previously gathered information in facts and figures, verified and published by official bodies, was utilized. The goal of this research is to learn more about the influence of foreign direct investment in the development of the Indian economy**.**

FDI POLICY IN INDIA:

The Dictionary of Economics defines FDI as "investment in a foreign country through the acquisition of a local company or the establishment of a new operation on a new site." To put it simply, FDI refers to capital inflows from overseas that are invested in or used to increase the economy's production capacity. Foreign investment in India is governed by the Government of India's FDI policy and the provisions of the Foreign Exchange Management Act (FEMA) 1999. In this regard, the Reserve Bank of India ('RBI') issued a notification containing the Foreign Exchange Management (Transfer or issuing of security by a person resident outside India) Regulations, 2000. This notice has been updated from time to time. The Ministry of Commerce and Industry, Government of India, is the key agency for motoring and the continuous review of FDI policy and changes in sectored policy/sectors equity cap. The Secretariat for Industrial Assistance (SIA), Department of Industrial Policy and Promotion (DIPP), notifies the FDI policy through Press Notes. Foreign investors are free to invest in India, with the exception of a few sectors/activities that require prior approval from the RBI or the Foreign Investment Promotion Board ('FIPB').

TREND OF FDI IN INDIA:

Total FDI Inflows:

The UNCTAD survey forecast India as the second most important FDI destination (behind China) for transnational firms during 2010-2012, starting from a base of less than USD 1 billion in 1990. According to the data, the industries with the highest inflows were services, telecommunications, building activities, and computer software and hardware. Mauritius, Singapore, the United States, and the United Kingdom were among the biggest sources of FDI. FDI for 2009-10 was USD 25.88 billion, a 5% decrease from USD 27.33 billion the previous fiscal year. Foreign direct investment fell by over 60% in August to around USD 34 billion, the lowest level since the 2010 fiscal year, according to industry department figures. During the first two months of the fiscal year 2010-11. Inflows of foreign direct investment into India reached an all-time high of $7.78 billion, up 77% from $4.4 billion during the same period the previous year.

Foreign direct investment (FDI) inflows into India appear to be declining, with inflows reaching a five-year low of 3% at USD 44.85 billion in 2017-18. According to the most recent data from the Department of Industrial Policy and Promotion (DIPP), FDI increased by only 3% to USD 44.85 billion in 2017-18. Foreign inflows into the country increased by 8.67% in 2016-17, 29% in 2015-16, 27% in 2014-15, and 8% in 2013-14. FDI inflows, on the other hand, increased by 38% in 2012-2013.

Experts believe that in order to attract foreign investors, it is important to boost domestic investments and improve the ease of doing business in the country. According to Anil Talreja, Partner at Deloitte India, the limited growth of FDI in the consumer and retail sectors is mostly due to the unpredictability and complexity of FDI policies. "While the government has made significant efforts to relax regulations and remove ambiguities, global consumer and retail companies are still hesitant to make investment decisions in India," he said.

Although India has made significant progress in terms of ease of doing business, it still has to achieve a level that captures the interest of foreign investors, according to Talreja. According to Biswajit Dhar, a professor at Jawaharlal Nehru University, "the status of the economy reflects the magnitude of FDI in a country." We have observed a drop in domestic investment rates in recent years, and now FDI is following suit." He stated that the government must take initiatives to revitalize domestic investment in order to attract overseas investors.

According to UNCTAD report, foreign direct investment in India reduced to USD 40 billion in 2017 from USD 44 billion in the previous fiscal year. However, outflows from India, the region's largest source of FDI, more than doubled to USD 11 billion, according to the research. According to UNCTAD Secretary-General Mukhisa Kituyi, "downward pressure on FDI and a slowdown in global value chains are major concerns for policymakers worldwide, particularly in developing countries." Services (USD 6.7 billion), computer software and hardware (USD 6.15 billion), telecommunications (USD 6.21 billion), trading (USD 4.34 billion), construction (USD 2.73 billion), automobile (USD 2 billion), and power (USD 1.62 billion) were the main sectors that received the most foreign inflows in the previous fiscal year.

Mauritius was the greatest source of FDI in India in 2017-18, with USD 15.94 billion, followed by Singapore (USD 12.18 billion), the Netherlands (USD 2.8 billion), the United States (USD 2.1 billion), and Japan (USD 1.61 billion). Furthermore, the report revealed that the USD 44.8 billion in FDI equity inflow in 2017-18 was the biggest ever for any fiscal year. FDI is critical because India will require massive investments in the coming years to rebuild its infrastructure sector in order to stimulate GDP. A drop in foreign inflows could strain the country's balance of payments and have an influence on the rupee's value.

Attracting foreign investment has been a primary priority area for both the previous **'Make in India'** initiative and the recently established **'Aatmanirbhar Bharat Abhiyan'** campaign. The government has made targeted attempts to implement reforms in all areas covered by the World Bank's 'Doing Business' framework, but the emphasis has been mostly on aspects such as paying taxes, trading across borders, and resolving insolvency. As a result, during the last few years, India has made impressive progress in terms of ease of doing business and proved its commitment to reform. The country's overall ranking has risen from 130th in 2016 to 63rd in 2020. However, India still has a long way to go before it can compete with Asian peers such as China (31st), Thailand (21st), and others. The improved investment climate in India is also reflected in the OECD's FDI Regulatory Restrictiveness Index, which shows that India's FDI restrictiveness has decreased from 0.244 in 2015 to 0.207 in 2019. Although India's position is better than China's (0.244), we lag far behind some of our major FDI competitors, such as Vietnam (0.130).

In FY21-22, India receives the largest annual FDI inflow of USD 83.57 billion. India is quickly emerging as a favoured investment location, with FDI inflows increasing 20-fold in the last 20 years. Manufacturing FDI equity inflows increase by 76% in fiscal year 2021-22. Post-Covid, FDI inflows increase by 23%. Karnataka has emerged as India's top FDI equity inflow recipient state. Singapore received the most FDI equity inflows (27%), followed by the United States (18%). With a stake of roughly 25%, computer software and hardware become the leading recipient industry of FDI equity inflows.

Global inflation will begin to rise, although this will have an influence on FDI levels in the first half of 2023. The protracted conflict in Ukraine will continue to put strain on the global economy. Economic conditions will drive numerous countries to enter a recession, reducing FDI.

The balance of trade and investment partners will become clearer in 2023, with important issues including friend shoring, energy redistribution, restructuring of Russian activities, and the digital industry.

Mauritius (26%), Singapore (23%), the United States (9%), the Netherlands (7%), and Japan (6%), emerge as the top five nations for FDI equity inflows into India in fiscal year 2022-23

Total FDI inflows into the country in FY 22-23 was $ 70.97 billion, with total FDI equity inflows at $ 46.03 billion. Total FDI inflows into the country in the last 23 years (April 2000-March 2023) were $ 919 billion, whereas total FDI inflows received in the recent 9 years (April 2014-March 2023) totalled $ 595.25 billion, accounting for roughly 65% of total FDI inflows in the last 23 years.

Asian countries will continue to profit from China's drop in FDI inflows. Countries with high expectations for economic growth in 2023 will be aiming for greater FDI levels.

FINDINGS:

I.FINANCIAL YEAR-WISE FDI INFLOW DATA:

(FDI data has been altered since 2000-01 with wider coverage to align with International Best Practices.)

FOREIGN DIRECT INVESTMENT (FDI)									
		Equity				FDI INFLOW INTO INDIA			
S. NO.	Financial Year (April - March)	Government Route/ Automatic Route/ Acquisition Route	Equity capital of unincorporated bodies #	Re-invested earnings +	Other capital +	Total FDI inflow	%age growth over previous year (in USD terms)	Investment by FII's Foreign Institutional investoINR Fund (net)
FINANCIAL YEAR 2000-01 TO 2022-23								
1	**2000-01**	2,339	61	1,350	279	**4,029**	-	1,847
2	**2001-02**	3,904	191	1,645	390	**6,130**	**(+) 52 %**	1,505
3	**2002-03**	2,574	190	1,833	438	**5,035**	**(-) 18 %**	377
4	**2003-04**	2,197	32	1,460	633	**4,322**	**(-) 14 %**	10,918
5	**2004-05**	3,250	528	1,904	369	**6,051**	**(+) 40 %**	8,686
6	**2005-06**	5,540	435	2,760	226	**8,961**	**(+) 48 %**	9,926
7	**2006-07**	15,585	896	5,828	517	**22,826**	**(+) 155 %**	3,225
8	**2007-08**	24,573	2,291	7,679	300	**34,843**	**(+) 53 %**	20,328
9	**2008-09**	31,364	702	9,030	777	**41,873**	**(+) 20 %**	-15,017
10	**2009-10**	25,606	1,540	8,668	1,931	**37,745**	**(-) 10 %**	29,048
11	**2010-11**	21,376	874	11,939	658	**34,847**	**(-) 08 %**	29,422
12	**2011-12**	34,833	1,022	8,206	2,495	**46,556**	**(+) 34 %**	16,812
13	**2012-13**	21,825	1,059	9,880	1,534	**34,298**	**(-) 26%**	27,582
14	**2013-14**	24,299	975	8,978	1,794	**36,046**	**(+) 5%**	5,009
15	**2014-15**	30,933	978	9,988	3,249	**45,148**	**(+) 25%**	40,923
16	**2015-16**	40,001	1,111	10,413	4,034	**55,559**	**(+) 23%**	-4,016
17	**2016-17**	43,478	1,223	12,343	3,176	**60,220**	**(+) 8%**	7,735
18	**2017-18**	44,857	664	12,542	2,911	**60,974**	**(+) 1%**	22,165
19	**2018-19**	44,366	689	13,672	3,274	**62,001**	**(+) 2%**	-2,225
20	**2019-20**	49,977	1,757	14,175	8,482	**74,391**	**(+) 20%**	552
21	**2020-21**	59,636	1,452	16,935	3,950	**81,973**	**(+) 10%**	38,725
22	**2021-22 (P)**	58,773	910	19,347	5,805	**84,835**	**(+) 3%**	-14,071
23	**2022-23 (P)**	**46,034**	**1,390**	**19,354**	**4,192**	**70,970**	**(-) 16%**	**-5,407**
CUMULATIVE TOTAL (from April, 2000 to March,2023)		**637,320**	**20,970**	**209,929**	**51,414**	**919,633**	**-**	**234,049**

II.SECTORS ATTRACTING HIGHEST FDI EQUITY INFLOW:

Rank	*Sector*	**Amt. in Rupees Crores/ Amt. in USD Million**	*2020-21 (April-March)*	*2021-22 (April-March)*	*2022-23 (April-March)*	*Cumulative equity inflow (April, 2000-March, 2023)*	*%age out of total FDI Equity inflow (in terms of USD)*
1	SERVICES SECTOR **	Rupees Crores	37,542	53,165	69,852	6,31,985	
		USD Million	5,060	7,131	8,707	102,856	16%
2	COMPUTER SOFTWARE & HARDWARE	Rupees Crores	1,94,291	1,07,762	74,718	6,52,779	
		USD Million	26,145	14,461	9,394	94,912	15%
3	TRADING	Rupees Crores	19,349	33,779	38,060	2,67,179	
		USD Million	2,608	4,538	4,792	39,531	6%
4	TELECOMMUNICATIONS	Rupees Crores	2,884	4,980	5,469	2,32,522	
		USD Million	392	668	713	39,044	6%
5	AUTOMOBILE INDUSTRY	Rupees Crores	12,115	51,624	15,184	2,22,665	
		USD Million	1,637	6,994	1,902	34,744	5%
6	CONSTRUCTION (INFRASTRUCTURE) ACTIVITIES	Rupees Crores	58,240	24,178	13,588	2,04,478	
		USD Million	7,875	3,248	1,703	29,686	5%
7	CONSTRUCTION DEVELOPMENT: Townships, housing, built-up infrastructure and construction- development projects	Rupees Crores	3,117	932	1,196	1,29,208	
		USD Million	422	125	146	26,356	4%
8	DRUGS & PHARMACEUTICALS	Rupees Crores	11,015	10,552	16,654	1,26,036	
		USD Million	1,490	1,414	2,058	21,464	3%
9	CHEMICALS (OTHER THAN FERTILIZEINR)	Rupees Crores	6,300	7,202	14,662	1,26,719	
		USD Million	847	966	1,850	21,302	3%
10	METALLURGICAL INDUSTRIES	Rupees Crores	10,002	16,783	1,764	1,03,147	
		USD Million	1,340	2,272	219	17,234	3%

Note: services sector**includes Financial, Banking, Insurance, Non-financial/ Business, Outsourcing, R&D, Tech, Testing and Analysis

Sources: Fact sheets on FDI, DIPP

III.STATES/UTs ATTRACTING HIGHEST FDI EQUITY INFLOW:

Rank	Sector	Amt. in Rupees Crores/ Amt. in USD Million	2020-21 (April-March)	2021-22 (April-March)	2022-23 (April-March)	Cumulative equity inflow (October, 2019-March, 2023)	%age out of total FDI Equity inflow (in terms of USD)
1	MAHARASHTRA	Rupees Crores	1,19,734	1,14,964	1,18,422	4,07,328	
		USD Million	16,170	15,439	14,806	53,971	29%
2	KARNATAKA	Rupees Crores	56,884	1,63,795	83,628	3,35,057	
		USD Million	7,670	22,072	10,429	44,461	24%
3	GUJARAT	Rupees Crores	1,62,830	20,169	37,059	2,39,025	
		USD Million	21,890	2,706	4,714	31,901	17%
4	DELHI	Rupees Crores	40,464	60,839	60,119	1,90,093	
		USD Million	5,471	8,189	7,534	25,193	13%
5	TAMIL NADU	Rupees Crores	17,214	22,396	17,247	64,086	
		USD Million	2,323	3,003	2,169	8,502	5%
6	HARYANA	Rupees Crores	12,559	20,971	20,735	59,472	
		USD Million	1,697	2798	2,600	7,822	4%
7	TELANGANA	Rupees Crores	8,618	11,964	10,319	35,766	
		USD Million	1,155	1,607	1,303	4,745	3%
8	JHARKHAND	Rupees Crores	5,993	48	44	19,292	
		USD Million	792	6	6	2,656	1%
9	RAJASTHAN	Rupees Crores	2,015	5,277	7,218	15,858	
		USD Million	272	707	910	2,078	1%
10	WEST BENGAL	Rupees Crores	3,118	3,195	3,217	10,897	
		USD Million	415	428	394	1,428	1%

Note:
i. Cumulative State-wise/UT-wise FDI equity inflow (from October, 2019 to March, 2023) are at – Annex-'C'.

ii. %age worked out in USD terms & FDI inflow received through Government Route + Automatic Route + acquisition of existing shares only.

iii. State wise data is maintained w.e.f. October, 2019. Figures are provisional.

BASED ON ABOVE DATA THE FINDINGS WERE……

This is primarily due to the relaxation of FDI laws in India. India is now one of the top 100 countries in terms of Ease of Doing Business (EoDB). FDI inflows into India totalled $45.15 billion in 2014-15 and have progressively reached since then.

Total FDI inflows into the country in the last 23 years (April 2000-March 2023) were $ 919 billion, whereas total FDI inflows received in the recent 9 years (April 2014-March 2023) totalled $ 595.25 billion, accounting for roughly 65% of total FDI inflows in the last 23 years.

Total FDI inflows into the country in FY 22-23 was $ 70.97 billion, with total FDI equity inflows at $ 46.03 billion.

Mauritius (26%), Singapore (23%), the United States (9%), the Netherlands (7%), and Japan (6%), emerge as the **top five nations for FDI** equity inflows into India in fiscal year 2022-23.

Services Sector (Fin., Banking, Insurance, Non-Fin/ Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis, Other) (16%), Computer Software & Hardware (15%), Trading (6%), Telecommunications (6%), and Automobile Industry (5%), are the **top five sectors receiving the most FDI equity inflows during FY 2022-23.**

During FY 2022-23, the top five states getting the most FDI equity inflows are Maharashtra (29%), Karnataka (24%), Gujarat (17%), Delhi (13%), and Tamil Nadu (5%).

CONCLUSION:

This paper mainly dealt about the importance of FDI and its role in Indian economy. It also covers the total FDI investments attracted by different state governments. The significance of FDI gained its popularity after economic reforms. FDI has **two-fold effect** on Indian economy, one side it will boost the economy by attracting the global investment, on the other hand indigenous industries will face the stiff competition from the global firm. It may reduce the profitability of the local firm. If India can attract FDI, the overall picture will be positive. However, it has the potential to negatively impact local communities and introduce domestic enterprises to international competition, which can harm domestic firms. To address this issue, the government should reconsider the sectoral cap and bring more industries under the automated route. As of April 2015, FDI inflow in India increased by 48% since the launch of **"Make in India"** initiative. Hence, FDI is often seen as important catalysts for economic growth in the developing countries like India, FDI affects the economic growth by stimulating domestic investment, increasing human capital formation and by facilitating the technology transfer in the host countries. **Global inflation** will begin to rise, although this will have an influence on FDI levels in the first half of 2023. The protracted conflict in Ukraine will continue to put strain on the global economy. Economic conditions will drive numerous countries to enter a recession, reducing FDI.

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