

NATIONAL ECONOMIC GROWTH ENABLED BY INTERNATIONAL TRADE: THE ROLE OF FDI & FII

¹Dr A. Nithya, ²Mrs.M.Mahalakshmi Priyadharshini

¹Assistant Professor, ²Assistant Professor

¹Department of Management

¹Rathinam School of Business at TIPS Global, Coimbatore, Tamil Nadu.

ABSTRACT:In order to create value for the organization, companies participate in international business. Sales expansion, resource acquisition, risk minimization are the guiding decisions for this global trade. World economies will be integrated; the barriers will be eliminated in this relationship. Globalization takes place among countries for commercial transactions. FDI & FII enhances competition. These foreign investments increase economic activities by transferring skills, technologies, resources. There is a huge impact on the global financial landscape by these investments. Spurring productivity, local competitiveness, market liquidity, capital flows were the major impacts. Trade deficits were reduced by increasing foreign exchange earnings and strengthening the financial position of the country. Promoting transparency in financial markets and high standard corporate governance were advocated by the institutional investors. Better understanding is the need of an hour, as complexities arises by the international operations and the nature of government regulation. Potential application of process can grant globalized excellence, that creates new product acceleration. Host countries economy is reflected in the huge capital inflow with the help of foreign direct investment (FDI) & foreign institutional investors (FII). This paper examines the role of FDI AND FII on economic growth of the country.

IndexTerms - Globalization, international business, market liquidity, foreign direct investment, foreign institutional investors, economic growth.

INTRODUCTION

Curtailling economic and societal factors, were the hurdles that India faces, since a decade. Predominant sources of capital like FDI and FII will definitely affect those critical concerns. There is a vibrant relationship between international trade and FDI. There is a strong coupling between investment and development. Strategic alliance can be promoted by international rules. Independent of category, whomever it may be like owner or shareholder, seeks higher yield generation. The flow of investment in the other countries will complement each other. FDI investors actively looks in for effective management voice and in turn FII investors looks in for maximized return.

1.1 INTERNATIONAL TRADE:

Commencing from civilization, passing through colonialism, world war, 20th century spotted, an undeniable global market place. Exclusive native market is the initial focus. To divert excess goods, uninvited orders were exported to foreign countries. Physical presence of offices, plants, or combinations paved the way for effect global trade.

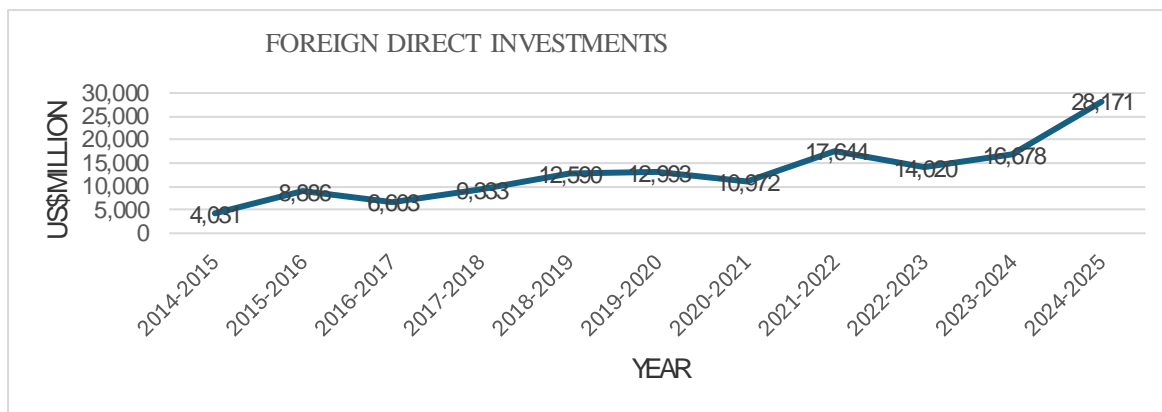
Adapting the strategies or tactics according to the local favors, viewed the global arena – a unified, seamless global market.

1.2 ECONOMIC GROWTH:

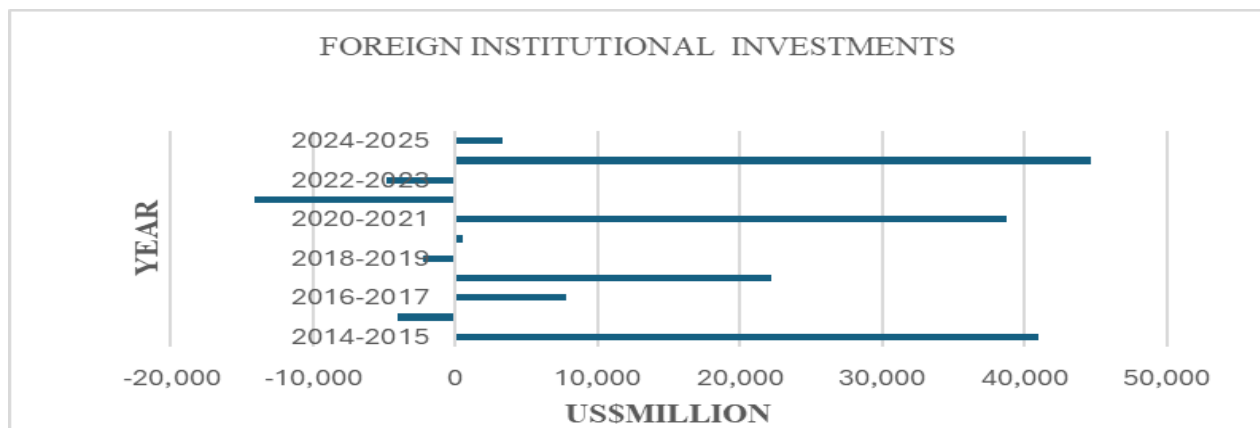
Degree of comfort can be strengthened by trading across borders. Environmental quality get boosts by making countries, to often use natural resources. Economic growth of a country can be diagnosed by the investments made in it. Relatively, it shows the standard of living and quality of life of people residing in the country.

REVIEW OF LITERATURE:

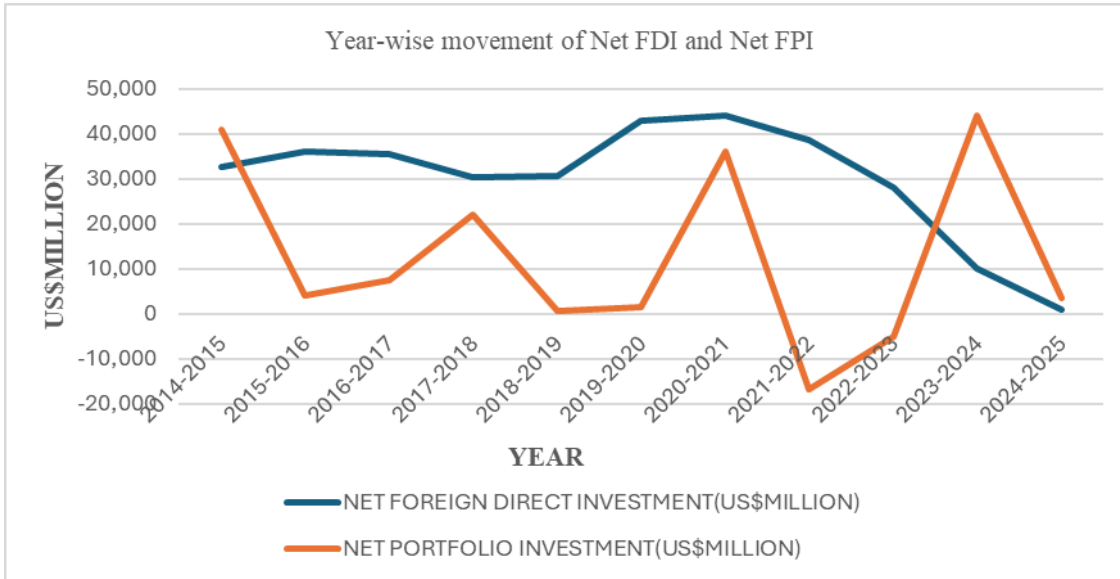
Bhedi, Kharbada (2014), Inaccessible facilities restricts the FDI input. Sood N (2015), analyzed that FDI in India is statistically significant. GDP is insignificant on FII. Singh (2009), studied FDI policies in India after some social reforms, Babar and Khandare (2012), analyzed sectors of FDI participating, focusing, changing structure and direction during globalization period. Devajuta (2012), focused the sustained economic growth, FDI becomes strategic component. In order to overcome heavy tariff and other trade costs, instead of exporting, they become service provider locally called horizontal FDI (Markusen 1984). Pujari and Mamilla (2022) assumes that foreign institutional investments and foreign direct investments acts as local savings base and focused capital accumulation.



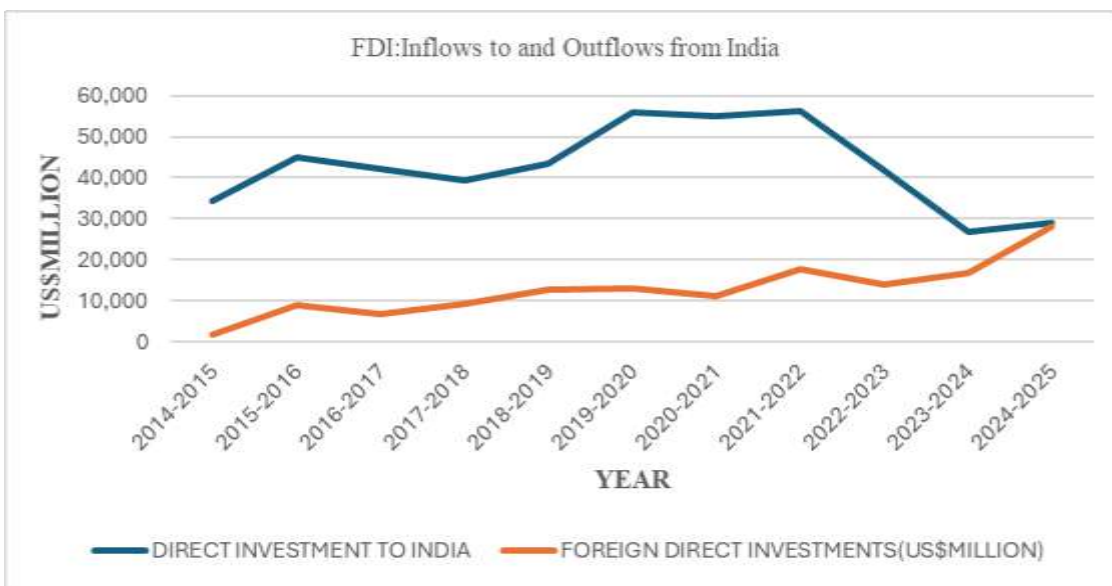
SOURCE: RBI BULLETIN



SOURCE: RBI BULLETIN



SOURCE: RBI BULLETIN



SOURCE: RBI BULLETIN

The information is derived from Reserve Bank of India Bulletin, which presents record till 2025. The information shows variation in FDI and FII. Periodic changes with regard to FII is more. FDI is reliable in long run but in the case of FII, there is a surge. NPI was higher during the year 2023-24. Worldwide outbreak does not affect FII during the year 2020-21 (36,137 USD) and showed modes upward movement, during the year 2023-24 (44,081 USD). Similarly, FDI to India remained strong during the period global health crisis. Outflows from India started declining during the year 2021-22. India's FDI flows slowed due to capital repatriation, where exists global economic shifts. Global geopolitical conflicts resulted in lower investment. There is a strong FDI inflow during 2023-24, attracting key sectors in FDI, were manufacturing, financial services, energy and communication services, making total inflow of around 60% outward surged 75% increase in 2023-24. Singapore, U.S, UAE, Mauritius and Netherlands were the destination countries. Indian firms invest globally and gain provisions for critical resources from diversified markets. Cost efficiency gives the Indian companies, a competitive edge. Seed money for startups: to fund factories, offices and R&D centers- can be gained through foreign investment. Augmented exports plays a vital role in transforming India into a global market platform.

Direct investments has inherent qualities that provide reliable funding and knowledge transfer, targeting optimization of output for the global enterprises. When comparing to the last year reinvestment earnings 2024-25 (22759 USD) was higher, 2023-24 (19,768 USD). Repatriation during the year 2024-25 (51,486 USD) was higher when comparing to the 2023-24 (44,472 USD). Trailing last three fiscal years, FDI during 2024-25 reported higher.

The main important behavior of FII is the influence of uplifting the global trade policy and health of an economy. The reforms made by the government pulls FII. In order to hype FDI, policies were framed conducive to investment. India plays a vital part in receiving greenfield projects announcements.

National Single Window Promotion System (NSWS), homogenized by Foreign Investment Facilitation Portal (FIF portal). It acts as a console for Government of India to streamline the FDI. Cumulative FDI equity flow in 2025 (7,47,503.50 INR crore), in which service sector ranks first. India is a donor for United Nations Industrial Development Organization (UNIDO). The corner stone of UNIDO delivery with south Asia region are to focus its activities in euphony with national policy priorities and evolutionary path. UNIDO-India country progress 2023-27, aimed to synergies for sustainable industrial development in particular economic divisions, areas and production networks.

India needs 7.8% growth an average over next 22 years to achieve high income status by 2047, Vikshit Bharat -country's vision. 7.2% growth rate was achieved in the past three fiscal years. The report needs exertion to shore up financial sector regulations, liberalizing to financing for MSME's.

CONCLUSION

Though FII provides substantial foreign capital, policy providers must frame the policies in such a way to attract the patient capital, and to increase long term investor confidence. FDI provides long term capital and management control and FII ensures the liquidity to the financial market. These investments increases the GDP of the country and gains investment flows. Market trend moves higher when the foreign investments were made, thereby increasing country's productivity, job opportunities, infrastructural development and thus leads to economic development.

REFERENCES

1. Naveen Sood (2014), Significance of FDI and FII for the economic growth of India: Statistical analysis 2001-2014, International Journal for Applied Research.
2. Pujari, S.R., & Mamilla (2022) Estimating the Long-run Equilibrium among Foreign Direct Investment, Foreign Portfolio Investment and Economic Growth: The Case of Indian Economy. PRAGATI: Journal of Indian Economy
3. Reserve Bank of India Bulletin, External Sector Data. Dec. 2025.
4. Department for promotion of Industry and Internal Trade, FDI NEWSLETTER VOL. XXXIV No. 2 OCTOBER, 2025.
5. Biswajit Maitra & Dhritiman Ganguli, Impacts of foreign and domestic investment on real exchange rates in India. Pages 1984-2002 | Received 29 May 2023, Accepted 23 Aug 2024, Published online: 04 Sep 2024.

Copyright & License: