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STUDY OF FOREIGN DIRECT INVESTMENT AND ITS IMPACT ON INDIAN ECONOMY

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ABSTRACT

The Foreign Direct Investment includes the transfer of capital, advance technology, and goods & services, come from developed nation to the developing for improving living standard, gaining new technology, providing employment opportunity, increasing gross domestic product, establishing new plants and raising foreign reserve etc. Thus, is useful investment for achieving good growth. Therefore, the Government of India had granted the permission to foreign investors for starting their business & setting-up plants and allowed 100% Foreign Direct Investment for Automobile Sector in the year 1991. Since, time, it has been resulted, India ranks second in two-wheeler, third in three-wheeler and enjoy abundant capital goods, brilliant engineering talent, low over all cost, political stability, legal and accounting frame-work etc.

Key-words- Foreign Direct Investment.

INTRODUCTION

Foreign Direct Investment plays an important role for the country's economic development and makes good infrastructure, brings employment, raises foreign capital & improves growth rate of a country. Under this investment process, the foreign company makes investment for the purpose of controlling production, distribution and other procedural activities of a firm in another country.

Foreign Direct Investment is also good source for the foreign capital to enhance competitiveness of domestic economy through transfer of technology, strength infrastructure, raise productivity and generate new employment opportunity. In case of India it requires because, it promotes economic development, makes more conducive environment for the foreign investors, creates employment opportunity, enables resource transfer, generates exchange of knowledge and increases productivity of the workforce in the target country.

Foreign Direct Investment is benefited to state as well as central government through this they improve their physical and economic infrastructure such as building roads, communication systems, educational institutions, and creation of new domestic industry and its advantages included; access to market & resources in terms of acquiring or starting a new business in the market, reduce cost of production, increase domestic employment, invest capital for infrastructure, show positive influence on the Balance of Payments and call new technology.

The forms of Foreign Direct Investment include merger & acquisition and building new facilities and developing countries consider this as an important channel to access resource to promote growth, while the multinational enterprises utilize foreign capital to make investment in real assets, land, building, or existing plants in foreign countries.

In following situations countries seek Foreign Direct Investment. First, Domestic capital is inadequate for the purpose of economic growth, second, foreign capital is usually essential at least as a temporary measure during the period when the capital market is in the process of development and third, foreign capital usually brings some other scare productive factors like technical know-how, business expensive and knowledge.

THE INDIAN GOVERNMENT HAS ALLOWED FOREIGN DIRECT INVESTMENT IN FOLLOWING SECTORS

- Townships, shopping complexes & business centers- all allow up to 100% FDI under the auto route. Conditions on minimum capitalization & floor area restrictions have now been removed for the construction development sector.

- India’s defense sector now allows consolidated FDI up to 49% under the automatic route. FDI beyond 49% will now be considered by the Foreign Investment Promotion Board.
- Private sector banks now allow consolidated FDI up to 74%.
- Up to 100% FDI is now allowed in coffee/rubber/cardamom/palm oil & olive oil plantations via the automatic route.
- 100% FDI is now allowed via the auto route in duty free shops located and operated in the customs bonded areas.
- Manufacturers can now sell their products through wholesale and/or retail, including through e-commerce without Government approval.
- Foreign equity caps have been increased for establishment & operation of satellites, credit information companies, non-scheduled air transport & ground handling services from 74% to 100%.
- 100% FDI allowed in medical devices.
- FDI cap increased in insurance & sub-activities from 26% to 49%.
- FDI up to 49% has been permitted in the Pension Sector.
- Construction, operation and maintenance of specified activities of Railway sector opened to 100% FDI under automatic route.
- FDI policy on Construction Development Sector has been liberalized by relaxing the norms pertaining to minimum area, minimum capitalization and repatriation of funds or exit from the project. To encourage investment in affordable housing, projects committing 30% of the total project cost for low cost affordable housing have been exempted from minimum area and capitalization norms.
- Investment by NRI’s under schedule 4 of FEMA (Transfer or Issue of security by person’s resident outside India) regulations will be deemed to be domestic investment at par with the investment made by residents.
- Composite caps on foreign investments introduced to bring uniformity and simplicity is brought across the sectors in FDI Policy.
- 100% FDI allowed in White Label ATM Operations.

PRESENT STATE OF KNOWLEDGE

Shalini Agarwal, Ankush Singh and Ritu Agarwal 2012[1], in their research paper titled **'Foreign Direct Investment in India'** have explained that the Foreign Direct Investment plays an important role for countries economic development, and helps to transfer financial resources & technology. According to the researchers, India receives in automatic route as well as government route, they have identified the need in India, made year-wise analysis and ranked the sectors based upon highest inflows. In last, Mauritius, Singapore, Japan and United States of America have invested highly in country and finds tremendous increase during the year 2000-2011.

Bhavya Malhotra 2014[2], in her research paper titled **'Foreign Direct Investment: Impact on Indian Economy'** has explained that the India's market potential and liberalized policy have made easy for foreign investors to invest in country. In this research paper, researcher has identified the nature of impact of Foreign Direct Investment on Indian Economy over a period of time and challenges to attract foreign investment among global countries.

Shikha Singh 2009[3], in her research paper titled **'Foreign Direct Investment and Growth of States of India'** has discussed about the policies of Foreign Direct Investment, play an important role to receive maximum inflow of capital from developed country for country's economic development. The purpose of this research paper is to know the trend after economic reforms, country-wise as well as sector-wise share and pattern to utilize capital for the growth of Indian states.

NEED OF THE STUDY

Researchers have been discussed about the Foreign Direct Investment; role, impact on Indian Economy and identified, how it helps in promoting the growth of country, but untouched areas are, what is the requirement and how policies help in promoting the growth for variables of Foreign Direct Investment.

OBJECTIVE

1. To know the impact and nature of coefficient of Foreign Direct Investment variables.

FOREIGN DIRECT INVESTMENT MODEL

FDI= F (INFLOWS, IMPORT, EXPORT AND EXCHANGE RATE)

Variable	Coefficient	Standard error	t-statistic
Constant	-2.03	2.06	-0.87
Trade	0.17	2.38	0.03
Import	0.59	0.19	0.35
Export	-1.45	0.16	-0.75
Exchange rate	0.74	0.57	1.101
$\mathbf{R^2}$= 0.286			
Adjusted $\mathbf{R^2}$ = 0.032 Significant level at 5%.			
D-Watson= 1.44			
F-Ratio= 0.90			

MULTIPLE REGRESSION MODEL

$$FDI=X_0+B_1X_1+ B_2X_2+ B_3X_3+ B_4X_4+E$$

FDI= (-2.03)+0.17 (TRADE)+0.59(IMPORT)-1.45(EXPORT)+0.74(EXCHANGE RATE)

This model variable includes Foreign Direct Investment inflows, Import, Export and Exchange rate.

This table also shows that the Export is one and only negative variable among positive variables and it is the indication for declining of export year by year and rest are pull factors for the Foreign Direct Investment Inflows in India.

It is cleared from the above table that the first variable, elasticity coefficient between Foreign Direct Investment and trade is 0.17, increase in trade causes to the 0.17% increase in Foreign Direct Investment. Second variable, import has coefficient value 0.59 which says that 1% decrease in import causes to the 0.59% increase in Foreign Direct Investment Inflows. Third variable, export output is negative (-1.45) which tells that 1% decrease in export causes to the (-

1.45%) decrease in Foreign Direct Investment Inflows and last variable, exchange rate gives positive output 0.74 which informs that 1% increase in exchange rate causes to the 1% increase in Foreign Direct Investment Inflows.

The coefficient of adjusted R Square shows that at 32% model has good fit as explained by variables included in the model.

The calculated value of D-Watson test is 1.44, indicates that there is no autocorrelation problem in the analysis. Further the value of Adjusted R-Square and F-Ratio confirm that the model used is a good statistical fit.

CONCLUSION

It is observed that Trade, Import, Export and Exchange Rate are the main components of Foreign Direct Investment to India and their results show that except Export rest are the positive variables. In other words, we can say that the variables Trade, Import and Exchange Rate are pull factor for the Indian Economy but Export is the deterrent variable. Thus, maximum variables have positive coefficient values. In last, this analysis research work helped in identifying the most attractive variables.

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