GE-International Journal of Management Research
ISSN (O): (2321-1709), ISSN (P): (2394-4226)
Vol. 12, Issue 03, March 2024 Impact Factor: 8.466
© Association of Academic Researchers and Faculties (AARF)
www.aarf.asia,**Email** : editoraarf@gmail.com

TREND OF FDI AND ITS IMPACT ON THE ECONOMY OF INDIA

Preety

H.no. 53, Barwali Dhani, Hisar

ABSTRACT

For developing nations like India, development in the economy, innovation in technology, and better global integration are all greatly aided by foreign direct investment (FDI). Foreign direct investment (FDI) patterns into India during the last decade are analysed and their effects on different parts of the Indian economy are assessed in this article. Liberalized regulations, economic reforms, and an investor-friendly environment have contributed to a notable increase in foreign direct investment (FDI) flowing into India, according to the study. Manufacturing, services, and infrastructure are just a few of the many areas that have attracted investors to India, making it one of the leading destinations for foreign direct investment. Jobs have been created, technology has been transferred, and productivity has been improved because to foreign direct investment (FDI). This is especially true in important industries like medicines, information technology, and telecommunications. The country's export competitiveness has been enhanced because to FDI, which has allowed India to participate more fully in global value chains and encouraged economic diversification. Problems including outdated regulations, ineffective bureaucracy, and inadequate infrastructure still prevent FDI from reaching its full potential. Maximizing the developmental impact of foreign direct investment (FDI) requires smart policy interventions to address concerns about sectoral concentration, crowding out of local investment, and sensitivity to external shocks. Contributing to GDP growth, employment generation, and technical improvement, FDI has emerged as a fundamental engine of India's economic change. It would be crucial for India to achieve sustainable and equitable growth in the years to come if it wants to establish itself as a global economic powerhouse and use FDI inflows efficiently.

Keywords: *Trend, Fdi, Economy*

INTRODUCTION

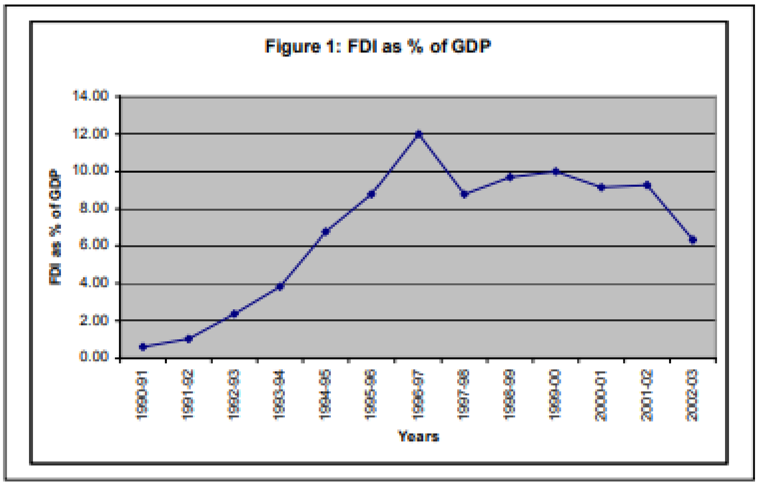
When it comes to developing and growing economies, foreign direct investment (FDI) is especially important, especially for rising economies like India's. Foreign direct investment (FDI) occurs when companies or individuals based outside of a country put money, know-how, and access to international markets into domestic enterprises or infrastructure. Due to its huge market size, trained labor, liberalized rules, and advantageous geographical position, India has been a leading destination for foreign direct investment (FDI) in recent decades. Starting in the early 1990s, India embarked on a path towards economic liberalization, which signified a significant change from a tightly controlled economy to one that was more open and focused on the market. With this new set of policies, India hoped to entice international investors, speed up industrialization, encourage innovation, and deepen its economic integration into the global economy. The following changes, which included streamlining investment processes, cutting bureaucratic red tape, and liberalizing important industries, have significantly increased India's appeal as a location for foreign direct investment. Foreign direct investment (FDI) patterns into India show that international investors are becoming more optimistic about the country's economic prospects. Foreign direct investment (FDI) into India's infrastructure, technology, and service industries has been on the rise over the last decade. Investment initiatives, job creation, technology and skill upgrades, and export promotion have all been greatly aided by this flood of foreign finance.

Foreign direct investment (FDI) has far-reaching effects on the Indian economy that go beyond the injection of cash alone. Gains in productivity and improvements in competitiveness have been seen across industries as a result of FDI inflows, which have made it easier to transfer cutting-edge technology, management techniques, and best-in-class procedures. Foreign direct investment (FDI) has also boosted innovation and entrepreneurship, which has helped the country's innovation ecosystem advance by connecting foreign companies with local ones and encouraging knowledge spillovers. There is a significant regional and sectoral disparity in the advantages of FDI. Some industries, including pharmaceuticals, information technology, and telecommunications, have profited greatly from foreign direct investment (FDI), while others are still struggling to draw in investors. There are still worries about foreign direct investment (FDI) being too concentrated in some industries, which might drive out local competitors, and about how vulnerable the economy is to shocks from outside.

Capitalizing on foreign direct investment (FDI) is crucial as India strives to become a $5 trillion economy and a world leader in manufacturing. To make the most of foreign direct investment (FDI) for development, strategic policy interventions are needed to remove regulatory barriers, improve infrastructure, make conducting business easier, and create an environment that is favorable to investment. For economic development to be sustainable and fair, it is crucial to diversify foreign direct investment (FDI) flows across sectors and regions, encourage inclusive growth, and establish robust connections to global value chains. Given this background, the purpose of this article is to examine the changes in foreign direct investment (FDI) entering India throughout the last ten years and the many ways in which this trend has affected the country's economy. The purpose of this study is to help policymakers in India better understand foreign direct investment (FDI), its potential benefits and drawbacks, and how to use it as a weapon for inclusive growth and economic change.

Dimensions of FDI in India

The magnitude and growth of foreign direct investment (FDI) into India, as well as its origins and sectoral compositions, provide insight into the nature of this phenomenon. Foreign direct investment (FDI) into India did not see substantial expansion until 1991 as a result of the country's regulatory policies. Its significance in spurring India's economic development is anticipated to grow substantially, nevertheless, under the current policy framework. In the time after deregulation, real FDI inflows have been steadily increasing, as seen in Table 1. Inflows have been rising consistently, reaching 3,108.9 million US dollars in 2003 from 3,514.30 million in 1991. The end consequence is a growth rate of about 6% each year on average (Figure 1). Foreign direct investment (FDI) into India has lagged behind that of smaller emerging nations such as Vietnam, Indonesia, Thailand, and Malaysia (WIR, 2005). Foreign direct investment (FDI) into India has been on the decline, with the FDI-GDP ratio (Figure 1) falling sharply between 1998 and 2003. This decline could be due to a number of factors, such as US sanctions following nuclear tests, the East Asian financial crisis, and the negative perception of the ruling Bharathi Janata Party (Swadesh) at the time. Keep in mind that throughout the years, financial partnership has much outnumbered technical collaboration. The new policy has increased the diversity of countries sending foreign direct investment (FDI) to India, according to studies tracking the origins of these inflows. In 1991, the Indian government authorized foreign direct investment (FDI) from 29 nations; by 2003, that number had risen to 106. In 2000, the figure was at 86. There has been an uptick in foreign investment in India during the reform era. Foreign direct investment (FDI) does, however, still mostly originate from a small number of nations. From January 1991 through December 2003, the top 10 nations' investment flows (as a proportion of total FDI) are displayed in Table 2. Despite the fact that the United States contributed for nearly a quarter of the overall foreign direct investment inflows (20.19%), the greatest stock for the period 1991–1999 came from Mauritius (30.12%). India received 35.79 percent of its total foreign direct investment (FDI) over the last decade from the following eight countries: Japan, the United Kingdom, the Netherlands, Germany, South Korea, Singapore, France, and Switzerland. This means that throughout the aforementioned time, 86 percent of the foreign direct investment (FDI) went to just ten nations. However, foreign direct investment (FDI) inflows are less concentrated geographically during the reform period compared to the pre-reform period (Sahoo and Mathiyazhagan, 2003). More than two-thirds of India's overall foreign direct investment (FDI) inflows in 1990 came from only six countries: the United States, the United Kingdom, Germany, Japan, Italy, and France. Foreign direct investment (FDI) inflows by nation demonstrate that Mauritius, which was absent until 1992, has the fastest growth rate. The US corporations' holding entities in Mauritius account for most of the investment. Consequently, the vast majority of the money that goes into tax havens comes from multinational firms with headquarters in other nations. Why American corporations have chosen to invest via Mauritius is a crucial topic that has recently emerged. Reason number one is that American corporations have set up shop in Mauritius, a safe haven for their capital while they seek for greener investment opportunities. Second, a 5% dividend tax is required by the tax treaty between India and Mauritius, whereas a 15% dividend tax is required by the treaty between India and the United States (World Bank, 1999).



Foreign direct investment in India:

FDI and Economic Growth

The founding of the British East India Company provides a historical context for foreign direct investment (FDI) in India. During Britain's colonial era in India, the capital of Britain moved to the subcontinent. While Japanese businesses did increase their commerce with India after WWII, the United Kingdom continued to be India's preeminent investor. Moreover, following independence, policymakers began to pay more attention to matters of foreign money and the activities of multinational corporations. Policymakers crafted the FDI policy with the nation's best interests in mind; the policy promotes FDI as a means to access cutting-edge technology and raise capital. Foreign direct investment policies have evolved throughout the years, mirroring shifts in economic and political power. Multinational corporations were able to explore the Indian market via technical cooperation because to the 1965 industrial policy. The administration took a liberal stance and allowed more frequent equity as a result. In response to the dire situation in the Indian economy, the government enacted a program of macroeconomic stabilization and structural adjustment with the assistance of the International Monetary Fund and the World Bank. In an effort to win back the trust of international investors, India loosened restrictions on foreign direct investment (FDI) and embraced a more liberal foreign policy after these changes. In addition, the Indian government established the Foreign Investment Promotion Board (FIPB) as part of its new foreign investment strategy; the board's primary responsibility is to court and promote investments from outside the country. From a low of less than USD 1 billion in 1990, a recent UNCTAD study predicted that, from 2010 to 2012, multinational firms ranked India as their second-most important target for foreign direct investment (FDI), behind only China. Services, telecommunication, construction, and software and hardware all saw bigger inflows than the other industries, according to the report. Foreign direct investment came mostly from the United States, the United Kingdom, Singapore, and Mauritius. Foreign direct investment (FDI) for 2009–10 was $25.88 billion, down 5% from $27.33 billion in the previous fiscal year, according to GYANPRATHA–ACCMAN (Journal of Management, Volume 5, Issue 1, 2013). Industry department data revealed that August's foreign direct investment was the lowest since the 2010 fiscal year, down 60% to almost US$ 34 billion. An all-time high of $7.78 billion, up 77% from $4.4 billion in the same period last year, was the foreign direct investment (FDI) influx into India in the first two months of the

2010-11 fiscal year. Many industries had their foreign direct investment (FDI) regulations loosened in 2013 by the government. These industries included telecommunications, defense, power exchanges, stock markets, and PSU oil refineries. The retail giant Tesco of the United Kingdom has applied to launch a supermarket chain alongside Trent of the Tata Group, with an initial investment of US$110 million. Air Asia and Singapore Airlines, both located in Malaysia, have joined up with Tata Group to introduce two new airline services in the civil aviation industry. In addition, Etihad, headquartered in Abu Dhabi, paid more over Rs 2,000 crore (about $319.39 million) for a 24% interest in Jet Airways. Since 2000, India has attracted a total of US$ 306 billion in foreign investment, with the previous nine years accounting for 94% of that total. India attracted 19.52 billion US dollars in FDI between 1999 and 2004. Overseas investment in the nation reached US$ 114.55 billion from 2004 to 2009, and US$ 172.82 billion from 2009 to September 2013. The total amount of foreign direct investment (FDI) received by India in fiscal year 2012–2013 was 22.42 billion US dollars. Among the most prosperous industries were those dealing with travel, medicine, services, chemicals, and building materials. According to a report conducted by tax advice company Grant Thornton, India saw mergers and acquisitions of US $26.76 billion between January and November of 2013.

OBJECTIVE OF THE STUDY

To Research the patterns of foreign direct investment (FDI) into the Indian economy from 2001 to 2023.

To assess how foreign direct investment affects GDP growth.

RESEARCH METHODOLOGY

Present study is descriptive and analytical in nature.

Data source

The current investigation is founded on secondary data obtained from the website of the Reserve Bank of India and World Bank Data for the time period spanning from the year 2000-01 to the year 2022-23. When conducting these research, we also make reference to a number of RBI bulletins and the report of the department of Industry Policy and Promotion. A correlation and basic regression analysis are used to evaluate the study hypothesis. Foreign direct investment (FDI) is the independent variable, and gross domestic product (GDP) is the dependent variable.

$$\gamma = \alpha + \beta\chi + \in$$

Where© : GDP (dependent variable),

〈is the intercept of ©

®is the slop coefficient and

|: FDI (independent variable) and

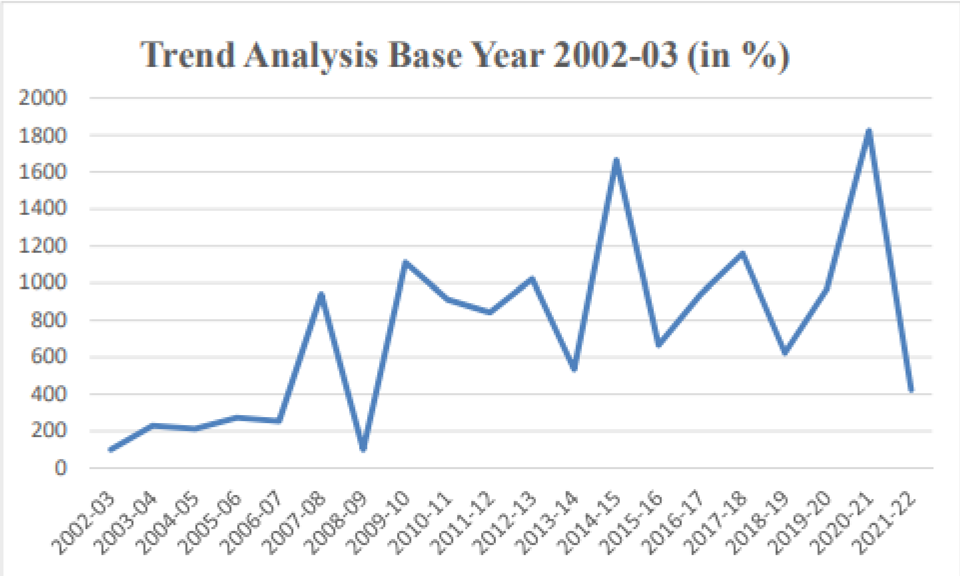
error term is denoted as □

FINDINGS AND DATA ANALYSIS

Table 1: Trend Analysis of FDI Inflow

YEAR	FDI ($ million)	Trend Analysis Base year 2002-03 (%)	YEAR	FDI ($ million)	Trend Analysis Base year 2002-03 (%)
2002-03	4161	100	2012-13	46711	1022.59
2003-04	13744	230.31	2013-14	26386	534.13
2004-05	13000	212.42	2014-15	73456	1665.34
2005-06	15528	273.18	2015-16	31891	666.43
2006-07	14753	254.55	2016-17	43224	938.79
2007-08	43326	941.24	2017-18	52401	1159.34
2008-09	8342	100.48	2018-19	30094	623.24
2009-10	50362	1110.33	2019-20	44417	967.46
2010-11	42127	912.42	2020-21	80092	1824.83
2011-12	39231	842.83	2021-22	21809	424.13

(Source: Handbook of Statistics on the Indian Economy 2021-22)



In the first table, the trajectory of foreign investment inflows is presented over a period of twenty years, with the year 2002-2003 serving as the base year. The trend % of foreign investment is displayed in the table that can be seen above. In India, foreign direct investment (FDI) has been steadily and steadily increasing, with a significant increase occurring in 2007-2008, as can be seen from the statistics and the figure. The government's willingness to liberalize and globalize the outside world is demonstrated by this, as it demonstrates its willingness to ease regulatory and entrance restrictions on foreign direct investment (FDI) inflow. Both the global GDP and the amount of foreign direct investment (FDI) were affected by the global financial crisis. This downward trend was also seen by India between the years 2009 and 2013, prior to the implementation of the "Make in India initiative" by the government in order to encourage domestic investment.

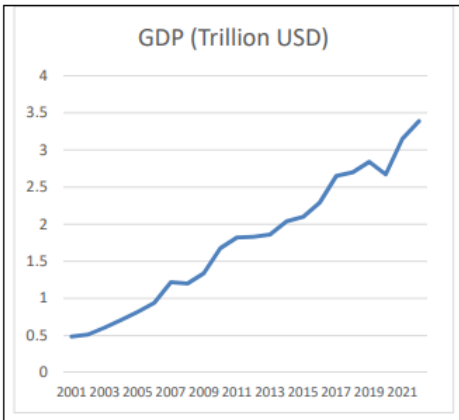
From this point on, it will continue to rise and will eventually reach a trend percentage of 1824.83% in the year 2020-21. The policy towards foreign investors has been increasingly liberalised over the course of the past eight years, and the majority of industries are now available to Foreign Direct Investment (FDI) at a rate of one hundred percent through the automatic method. Consequently, this has led to a discernible structural shift in the gross foreign direct investment flows to India. In FY22, the annual gross foreign direct investment (FDI) inflow reached an all-time high of 84.8 billion USD. The fact that these developments have occurred is evidence that India is becoming an increasingly popular investment destination among investors from across the world.

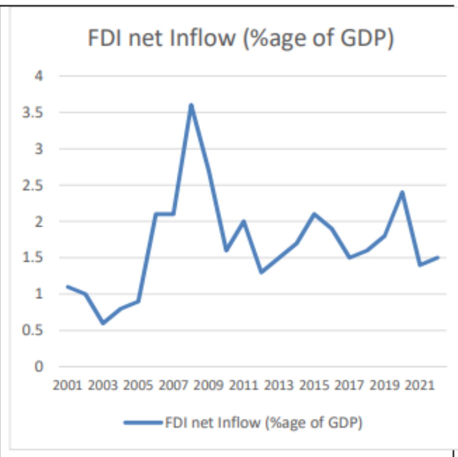
Table 2: Financial year wise GDP Data

S. No	Year	GDP (Trillion USD)	%age Growth	FDI net Inflow (%age of GDP)
1	2001	0.485	4.8	1.1

2	2002	0.515	3.8	1
3	2003	0.607	7.9	0.6
4	2004	0.709	7.9	0.8
5	2005	0.820	7.9	0.9
6	2006	0.940	8.1	2.1
7	2007	1.22	7.7	2.1
8	2008	1.2	3.1	3.6
9	2009	1.34	7.9	2.7
10	2010	1.68	8.5	1.6
11	2011	1.82	5.2	2
12	2012	1.83	5.5	1.3
13	2013	1.86	6.4	1.5
14	2014	2.04	7.4	1.7
15	2015	2.1	8	2.1
16	2016	2.29	8.3	1.9
17	2017	2.65	6.8	1.5
18	2018	2.7	6.5	1.6
19	2019	2.84	3.9	1.8
20	2020	2.67	-5.8	2.4
21	2021	3.15	9.1	1.4
22	2022	3.39	7	1.5

(*Source*: World Bank Data)





According to the data shown in Table 2, it can be noticed that India's GDP surpassed one trillion dollars in the year 2007, and that it will reach the next two trillion dollars in the year 2017, and that it will surpass three trillion dollars in the year 2021.There is a 17.9% rise in India's GDP from the previous year, which results in the country's GDP reaching USD 3.19 Trillion in the year 2021. It was discovered that foreign direct investment (FDI) as a proportion of GDP was at its greatest in the year 2008, which was 3.6%, and at its lowest in the year 2003, which was 0.6%. It has been noted that fluctuations in foreign direct investment (FDI) inflows are accompanied with fluctuations in the proportion of GDP that is contributed by FDI.

Table 3: Show the FDI inflows and its impact on GDP

YEAR	FDI ($ million)	FDI growth rate in (%)	GDP ($ billion)	GDP growth rate
2000-01	5862	-	485	
2001-02	6686	14.06	515	6.19
2002-03	4161	-37.77	607	17.86
2003-04	13744	230.31	709	16.80
2004-05	13000	-5.41	820	15.66
2005-06	15528	19.45	940	14.63
2006-07	14753	-4.99	1220	29.79
2007-08	43326	193.68	1200	-1.64
2008-09	8342	-80.75	1340	11.67
2009-10	50362	503.72	1680	25.37

2010-11	42127	-16.35	1820	8.33
2011-12	39231	-6.87	1830	0.55
2012-13	46711	19.07	1860	1.64
2013-14	26386	-43.51	2040	9.68
2014-15	73456	178.39	2100	2.94
2015-16	31891	-56.58	2290	9.05
2016-17	43224	35.54	2650	15.72
2017-18	52401	21.23	2700	1.89
2018-19	30094	-42.57	2840	5.19
2019-20	44417	47.59	2670	-5.99
2020-21	80092	80.32	3150	17.98
2021-22	21809	-72.77	3390	7.62

(Source: Handbook of Statistics on the Indian Economy 2021-22)

Table 4: Descriptive Statistics

	Mean	Std. Deviation	N
FDI INFLOW (USD Million)	32163.77	21408.387	22
GDP (USD Billion)	1766.18	891.906	22

Table 5: Correlations Matrix

		FDI INFLOW (USD Million)	GDP (USD Billion)
FDI INFLOW (USD Million)	Pearson Correlation	1	.655**
	Sig. (1-tailed)		.000
	N	22	22
GDP (USD Billion)	Pearson Correlation	.655**	1
	Sig. (1-tailed)	.000	
	N	22	22

**. Correlation is significant at the 0.01 level (1-tailed).

The strength of the association between foreign direct investment and gross domestic product is seen in tables 4 and 5. Find the correlation between the FDI (Independent) variable and the GDP (Dependent) variable by using the correlation matrix, which is presented in Table 5. With a value of 0.655, the coefficient of determination (R) suggests a high degree of connection between the predictors (FDI) and the result (GDP).

CONCLUSION

The economic landscape of India has been greatly influenced by foreign direct investment (FDI), which has fostered development, innovation, and global integration. The fact that foreign direct investment (FDI) into India has been steadily rising is evidence that the country's liberalization policies and economic reforms have been successful. Employment opportunities, innovation, and increased productivity have all been boosted by foreign direct investment (FDI) across a wide range of industries, including manufacturing, services, technology, and infrastructure. Important sectors that have benefited greatly from FDI include medicines, information technology, and telecommunications, where the investment has increased export competitiveness and prompted new innovations. Additionally, the Indian economy has benefited from the transfer of cutting-edge technology and managerial know-how made possible by FDI, which has increased capacity and skill levels. Nevertheless, obstacles like too bureaucratic processes and outdated infrastructure still exist, calling for ongoing government initiatives to make conducting business easier and create an environment that is favorable to investment. In the future, it will be essential to diversify foreign direct investment (FDI) flows across different areas and industries in order to achieve equitable growth and solve developmental problems. When India makes good use of foreign direct investment (FDI), it would be able to maintain its economic momentum and achieve its goal of becoming an economic superpower.

REFERENCES

1. Basu, Chakraborty, (2002). “Foreign Direct Investment and Growth in India: A Cointegration Approach”, Applied Economics, Vol. 34(9 pp.1061-pp.73.
2. Swathi, Reddy (2021) “Economic Development in India – Role of FDI,” Journal of Interdisciplinary Cycle Research, ISSN NO: 0022-1945, Volume XIII, Issue I, January/2021
3. Reserve Bank of India, Monthly bulletins various issues.
4. Merajothu, Dhadurya Naik, An empirical study on Foreign Direct Investments Impact on Economic Growth of India (May 11, 2020). Available at SSRN: https://ssrn.com/abstract=3598037 or http://dx.doi.org/10.2139/ssrn.3598037
5. Ministry of Finance, Department of Economic Affairs, Government of India.
6. Tilak Raj & Ashima Pahwa (2018), Impact of Foreign Investments on Economic Growth of India, Research Review International Journal of Multidisciplinary, Volume-03, Issue-12, December -2018, pp. 52-57.
7. “Role of Foreign Direct investment In India –An analytical Study” –Dr Jasbir Singh.
8. “FDI and economic growth in India”-R. Anitha.

9. “Foreign direct investment: impact on Indian economy”-B.Malhotra, Global Journal of business management and Information Technology.
10. Basu P., Nayak N.C, Archana (2007): “Foreign Direct Investment in India:Emerging
11. Horizon”, Indian Economic Review, Vol. XXXXII. No.2.
12. Ms. Sapna hooda (2011) a study of FDI and Indian Economy; Doctor of philosophy from national institute of technology(deemed university) Haryana.
13. Bhandari, L.S Gokara. A. Tandon (2002), „Background paper: Reforms and foreign direct investment in India" DRC working paper: Reforms and foreign direct.