



# Impact of Foreign Direct Investment (FDI) on emerging Indian Economy

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## Abstract

*Indian economy is one of the top emerging markets of the world. Five years ago, it was considered as part of the fragile five, but no longer. Since 2014, it has emerged as of the one top foreign destination in the world with a significant rise in FDI. The journey of attracting foreign investments started way back in 1991 with New Economic policy and India has unpretendingly scaled new heights in the level of FDI during 2000's. The paper focuses on secondary data based on analysis of the inflow of FDI in India from 2000 to 2018. The paper also aims to look at different facets of positive FDI spill overs in the country.*

*Foreign Direct Investment (FDI) refers to an investment made by a company based in one country in to another company based in other country. FDI is often preferred over Foreign Institutional Investments (FII) as it considered to be the most beneficial form of foreign investment for an economy. FDI plays a multidimensional role in the overall development of any economy. It provides a new source for capital, can lead to technological up gradation, skill enhancement and allocative efficiency effects. While FDI is expected to create positive impact on economy, it has also brought in certain negative impact on Indian economy during the past few years. The present study is conducted to study the relationship and analyze the impact of FDI on Indian economy. Flow of FDI for the past 15 years was taken for study (2000-2015). The impact was studied by testing the correlation with the country's GDP and Stock Market Indices. Sensex and Nifty were considered as the representative of Indian Stock Market. The study concludes that flow of FDI in to the country plays a dominant role in deciding the stock market movements.*

**Keywords:** *Foreign Direct Investment (FDI), Indian Economy, Growth, Development*

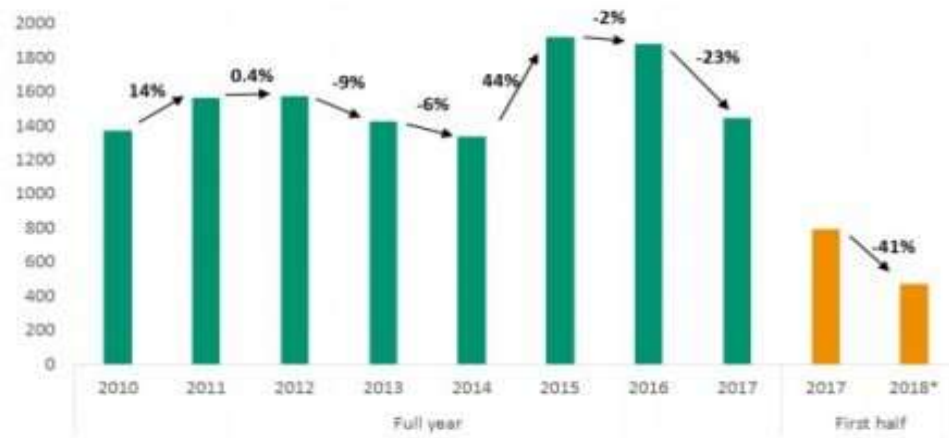
## Introduction

Foreign Direct Investment (FDI) plays an important role in growth & Development of an economy. It is more important where domestic savings is not sufficient to generate funds for capital investment. Not only it supplements the investment requirements of an economy but also it brings new technology, managerial expertise & adds to foreign exchange reserves. FDI inflow is more beneficial particularly to developing and emerging countries than the developed ones. IMF has defined FDI as “a category of international investment that reflects the objective of a resident entity in one economy (direct investor or parent enterprise) obtaining a lasting interest and control in an enterprise resident in another economy (direct investment enterprise)”.

World Investment Report (2018) stated that there has been a decline in global FDI by 23 %, i.e. \$1.43 trillion. Even with this decline the FDI to developing economies remained stable at \$671 billion in 2017. Asia was the largest recipient of FDI in the World with a total of \$476 billion inflows in 2017. FDI has been a major driver of economic growth in India. It is also a major source of non-debt financial resource for the development of the country. Ever since the New Economic Policy of 1991, foreign investments have been flowing into the economy.

Various governments have taken measures to relax FDI norms across a range of sectors like telecommunication, power exchanges, stock market, defense, oil refineries in the public sector, etc. As per the Economic Survey (2017-18) reforms in the FDI policy announced in 2016 have brought maximum number of sectors under the automatic approval route, with a few exceptions in the negative list. There was a growth in FDI by 8 %, i.e. US\$ 60.08 billion in the 2016-17. This is a very high growth rate for any financial year. Countries like ‘Mauritius, Singapore and Japan have been top three countries in India contributing 36.17 %, 20.03 % & 10.83 % of the total FDI Equity Inflows during 2016-17.’ Netherlands and United Kingdom also got added in the list for the year 2017- 18 with the contributions of nearly 7 % & 5 % respectively. The Sectors receiving highest FDI Equity inflows during the same year are Services (Finance, Banking, and Insurance), Telecommunications and Computer Software & Hardware. They have received highest FDI with a share of 19.97 %, 12.80 % & 8.40 % respectively. Other sectors catching up fast are Power and Trading with 8 % and 11 % share respectively in terms of FDI inflows. Thus, in the recent years various governments have been proactive in making profound changes in the investment policies of India and this has helped the country to build and upgrade its industries with more global connect. Government policies since 2014 can be applauded for understanding the global economic landscape well in advance and making deep structural changes in the economy. The investment climate has changed in the country. India’s rank has moved by 53 position in the World Bank’s annual ‘ease of doing business index’. India currently ranks 77th in the list of 190 countries.

**Figure 2. Global FDI flows and growth rates, 2013–2017 and 2017:H1–2018:H1**  
(Billions of US dollars and per cent)



Source: UNCTAD.  
\* Estimates.  
Note: Excluding Caribbean offshore financial centers.

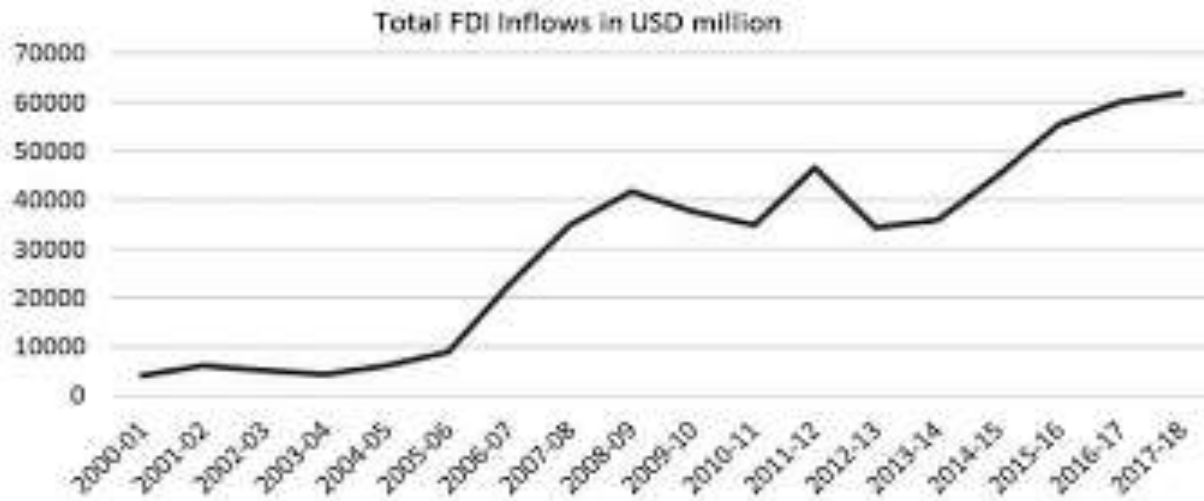
## Evolution of FDI Inflows in India

The Investment climate in India has changed and improved considerably since the opening up of the economy in 1991 and more progress was achieved under it from 2014 onwards. Easing of FDI norms played a pivotal role in raising the FDI in different sectors of the economy. The Indian economy is currently part of the 100 club on Ease of Doing Business (EoDB) and globally ranks first in the Greenfield FDI ranking. India received the record FDI of \$ 60.1 bn in 2016-17. Under the current framework of FDI there are two routes to enter the country by Multinational companies: the government route and the automatic route. Under the government route there is a prior permission for investment required and need to be approved by the respective administrative Ministry or department. Under the Automatic route, the investor requires no approvals from the Government of India for investment. Under both routes FDI can be permitted up to 100 %.

*FDI Inflows in the Country during the Financial Years from 2000-01 to 2018-19 (up to June 2018) Value in USD**Million*

S.No:	Financial Year (April – March)	Equity		Re- invested Earning	Other Capital	Total FDI Inflows	%age Growth over Previous Year
		RBI's Automatic Route/ Acquisition Route	Equity Capital of Unincorporated Bodies #				
1	2000 – 2001	2339	61	1350	279	4029	-
2	2001 – 2002	3904	191	1645	390	6130	(+) 52 %
3	2002 – 2003	2574	190	1833	438	5035	(-) 18 %
4	2003 – 2004	2197	32	1460	633	4322	(-) 15 %
5	2004 – 2005	3250	528	1904	369	6051	(+) 40 %
6	2005 – 2006	5540	435	2760	226	8961	(+) 48 %
7	2006 – 2007	15585	896	5828	517	22826	(+) 155%
8	2007-08	24,573	2,291	7,679	300	34,843	(+) 53 %
9	2008-09	31,364	702	9,030	777	41,873	(+) 20 %
10	2009-10	25,606	1,540	8,668	1,931	37,745	(-) 10 %
11	2010-11	21,376	874	11,939	658	34,847	(-) 08 %
12	2011-12	34,833	1,022	8,206	2,495	46,556	(+) 34 %
13	2012-13	21,825	1,059	9,880	1,534	34,298	(-) 26 %
14	2013-14	24,299	975	8,978	1,794	36,046	(+) 5 %
15	2014-15	30,933	978	9988	3249	45148	(+) 25 %
16	2015-16	40,001	1,111	10,413	4,034	55,559	(+) 23 %
17	2016-17 (P)	43,478	1,223	12343	3176	60220	(+) 8 %
18	2017-18 (P)	44857	816	12370	3920	61963	(+) 3%
19	2018-19 (P) (upto June 2018)	12,752	155	2,924	1,037	16,868	-
Cumulative Total (from April, 2000 June 2018)		391286	15079	129198	27757	563320	-

*Source: Reserve Bank of India (RBI) bulletins and DIPP (Department of Industrial policy & promotion).*



Since the year 2000, significant changes have been made in the FDI policy regime by the government ensuring that the country becomes an increasingly attractive and investor friendly destination. The FDI inflows in the country grew tremendously post the 1991 reforms and were remarkable with a 52 per cent increase in the year 2001-02. From 2001-02 to 2000-04 the FDI inflows did not see much growth and the percentage growth in FDI inflows was enormous. As pointed out by Singh (2009), an inclusive review was done for the FDI policies in 2006 adopting a more rationalized approach. The procedures were simplified, equity caps were raised to 100 percent and restrictive conditions were removed. This resulted in a positive impact on the civil aviation sector. Economic Survey (2007-08) pointed out that the government organized events like Destination India in association with CII (Confederation of Indian Industry) and FICCI (Federation of Indian Chambers of Commerce and Industry). This was to attract more investments, bringing into force the Foreign Investment Implementation Authority (FIIA) for investment related problems, setting up of National Manufacturing Competitiveness Council (NMCC) to offer an ongoing forum for policy discussions. Department of Industrial Policy & Promotion (DIPP) made efforts to make the website user-friendly with online chat facility. In relation to these 4,500 investment related queries were answered during 2007- 08. However, in 2009-10 till 2013 the FDI investments could not grow much owing to the financial instability triggered by the United States subprime crisis in 2008 and further the Euro crisis in 2012-13. There was a decline in World growth prospects as well as investors' confidence leading to a negative impact worldwide.

In India also FDI inflows declined, which indicates that only in 2014 the revival signs started emerging for FDI with a positive growth in inflows. 'The changes in the FDI Policy 2017 showcases the hard work and efforts of the Indian Government to remove of several layers of bureaucracy, and to process proposals for FDI under the government approval route in a more streamlined, positive and expeditious manner. The Government has eased 87 FDI rules across 21 sectors in the last 3 years, opening up traditionally conservative sectors like rail infrastructure and defense.

### Objectives of the Study

1. To make an analyze about the impact of Foreign Direct Investment on Indian Economy, &
2. To study how it affects the economy as a whole.

## Is FDI in retail bane or boon?

The government's decision to open up Foreign Direct Investment (FDI) in the retail sector has created uproar of opposition in the political arena. However there seems to be a greater diversity of opinion among our readers at least. On Sunday 27 November, First post Published an article titled, Manmohan Singh's big retail risk which has received a number of comments arguing both for and against FDI in the retail sector. We found these comments extremely interesting and thought provoking in terms of the points they raised, and have therefore decided to publish a cross section of them here.

Some readers such as Arul Prakash feel that the measures will put farmers at a disadvantage and also result in a situation where consumers are not given the freshest produce. He writes, "Once they come the farmers who now have several middle man to sell their goods, will have only a few retail stores to sell in future. Usually that means price he gets will not be as competitive as it is today. Second! the same supermarkets may not actually give the best products grown in India to Indians., third! they can alter the food habits of the nation. Instead of eating fresh foods we will all be eating canned foods soon!"

"Guest", an anonymous commenter on the article also feels that FDI will be more bane than boon. He says, "Manmohan Singh and his team may believe that Wal-Mart, Carrefour etc. are coming to India to uplift the condition of agricultural sector and will improve supply chain efficiency. We believe they are coming for sheer profit motives and if that means squeezing the billion+ Indians, selling Chinese goods, killing indigenous ventures - they will do that. Today's independent entrepreneur and businessmen will become their salaried employees."

On the other side of the debate, Shiva Kakkar does not believe that the entry of foreign players such as WalMart will necessarily kill off the kirana stores, and says that India's bad supply chain management could do with some propping up. He says, "Opening up of foreign store does guarantee one thing – stiffer competition and aggressive pricing and better quality of service. But that doesn't mean that Kirana store guys would die of hunger. They have their own clientele and I have seen that when competition stiffens they tend to adapt to it. I come from a tier 2 city. When Reliance and Big Bazaar first entered, there was the same opposition but after that I have seen many small Kirana store owners turn their stores into departmental format and they seem to have maintained their clientele. Secondly, I have noted that they tend to have a better hold of tastes of the local public, for e.g. variety of rice or wheat sells more than others etc. The one good thing was that it was only after the onslaught of retail chains, the kirana guys started valuing customers. I have seen men who wouldn't give a damn if you stomped out of their shops change their attitude and give better service. Still, the return policies and complaints department happen to be a problematic affair for local stores. Truly speaking, I am thrilled how foreign retailers would handle the Indian retail scenario."

## To Sum UP!

### Positives

Foreign direct investment would allow India to secure foreign infrastructure into India, which would increase India's capital base rapidly. If India can attract FDI in the big picture it's nothing but positive things. China has grown tremendously because of FDI. So, the benefits can be listed as:

- Employments opportunities
- reduce spoilage and
- enable the delivery of affordable products to customers

### Negatives:

The negatives are that it can affect local communities, when larger projects come in. It also means subjecting domestic firms to foreign competition which can harm domestic firms, and this isn't necessarily due to incompetence of the domestic firm. Foreign firms may have technology that India has not acquired. On the other hand, FDI brings those technologies to India much quicker. The negative impacts:

- improper time of allowing FDI in Retail in India because of lack of infrastructure
- taking of revenue and market share by the big foreign giants.

### Conclusion

The study tries to evaluate empirically, the relationship between foreign direct investment (FDI) and economic growth in India by using yearly data for a decade from 2000-01 to 2018-19. The study identified that the major factor influencing the inflow of FDI to India, which is poised of various variables collected under FDI and Indian economy. A tactical feature of investment is required for India's sustainable economic growth and development which can be brought on board by Foreign Direct Investment (FDI) through creation of jobs and enhancement of skillful labor.

To sum up, the recent changes in FDI policy regime of 2017 by GOI has helped to remove multiple layers of bottlenecks faced by foreign investors. The investment processes have been rationalized and expedited. "The Government has eased 87 FDI rules across 21 sectors in the last 3 years, opening up traditionally conservative sectors like rail infrastructure and defense. India's agriculture sector has also received FDI worth INR 515.49 crore in 2016-17. The changes in the FDI policy regime exhibits the Government will continue to bring about liberalization of the FDI regime in India in the months to come. All in all, the efforts should be directed to maintain India's trajectory towards remaining the world's most attractive destinations for foreign investment.

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