IMPACT OF FDI ON INDIAN ECONOMY IN THE CURRENT SCENARIO

[1]Dr. M. Jegadeeshwaran, [2]C.V. Karthika
[1]Assistant Professor, [2]M.Phil. Research Scholar
[1,2] School of Commerce, [1]Bharathiar University, Coimbatore, Tamil Nadu, India

Abstract: Since liberalization Foreign Direct Investment (FDI) has become the most important source of foreign capital for emerging market economic. The objectives of the study are to find the trends of FDI inflow in India and to examine the impact of FDI inflow on Indian Economy. This study used regression model to check the impact level of selected macroeconomic variables. The study found that flow of FDI is not similar to the flow of GDP and Foreign Reserves and also created on positive impact on Inflation, Exports and Imports.

Keywords: Role of FDI, Indian Economy, GDP, Inflation, Foreign Reserves, Export and Import.

I.INTRODUCTION

Foreign Direct Investment (FDI) has played an important role in the process of globalization during the past two decades. The rapid expansion in FDI by multinational enterprises since the mid-eighties may be attributed to significant changes in technologies, greater liberalization of trade and investment regimes, and deregulation and privatization of markets in many countries including developing countries like India. Capital formation is an important determinant of economic growth. According to a recent survey by the United Nations Conference on Trade and Development (UNCAD) India has conspicuously immersed out as the second most popular and preferable destination in the entire world, after China for highly profitable direct investment. Foreign companies invest directly in fast growing private Indian business to take benefits. Economic liberalization started in India in wake of the 1991 economic crisis and since then FDI has steadily increased in India Post liberalization was the successful period for the growth of Indian economy. The agriculture sector has faced many revolutions since liberalization. However, 7 per cent of GDP was contributed by the industrial sector per annum. During 1990s, the Indian economy faced a several crises, like low per ca-pita income, decline in GDP growth, increasing unemployment, and health & hygiene issue. The FDI capital for various sectors includes tea, media, natural gas and petroleum was also liberalized during this period. The government of India continuously works towards increasing the FDI flows through numerous initiatives.

II. STATEMENT OF THE PROBLEM

The objective of economic reforms adopted by the Indian government was to transform a backward and predominantly agrarian economy, lacking in basic infrastructure, into a modern developed economy. The attractiveness of India as a preferred investment destination could be ascertained from the large increase in FDI inflows to India, which rise continuously from year to year. The significant increase in FDI inflows to India reflected the impact of liberalization of economy since the early 1990s. The FDI was one of the main factors driving the macro-economic variables towards countries economic conditions. To understand whether the India can attain the attractive investment destination in the global scenario.

III. REVIEW OF LITERATURE

Andreas Johnson (2006)[1] investigated “The Effects of FDI Inflows on Host Country Economic Growth”. This paper discusses and models the potential of FDI inflows to affect host country economic growth. The paper argues that FDI should have a positive effect on economic growth as a result of technology slipovers and physical capital inflows. Performing both cross-section and panel data analysis on a dataset covering 90 countries during the period 1980 to 2002, the empirical part of the paper finds indications that FDI inflows enhance economic growth in developing economies but not in developed economies.

Arjun Singh Sirari, Satpuli, Narendra Singh Bohra (2011)[3] in their paper viz “Foreign Direct Investment(FDI) in India’s Service Sector (A Study of Post Liberalization)” attempted to analyse the significance of the FDI inflows in Indian Service Sector from 1991-2010 and to study the relationship between service sector growth and Indian economy. The study was conducted on secondary source of data. It was observed from the analysis that FDI has helped to raise the output, productivity and employment in some sectors especially in service sector.

Sauna Hood (2011)[4], "A Study OF FDI and Indian Economy", has aimed to study the trends and patterns of flow of FDI, determinants of FDI and also the impact of FDI on the Indian economy. The time series data and the relevant data have been collected for the period 1991 to 2008. The tools used were trend analysis, annual growth rate, compound annual growth rate and regression analysis for model building. The results showed that despite troubles in the world economy.

Rahul Singh (2013)[6]," FDI and Its Impact on India-Curve Estimation Analysis of FDI& Nifty (For the Period Between 2000 – 2010)". This article aims to examine the impact of inward FDI on the Indian economy, particularly after a decade of economic reforms and analyze the challenges to position itself favorably in the global competition for FDI. In this context, the article further investigates the likely impact on FDI inflows to India as a result of increasing competition from another major emerging market economy. The study is based on secondary data. The relationship between FDI and NIFTY growth rate since 8 out of 10 years indicate a positive correlation.

Bhavya Malhotra (2014)[7], "Foreign Direct Investment (FDI) Impact on Indian Economy", a study examines that the trends, patterns and determinants of FDI inflows, evaluate the impact of FDI on the Indian Economy, known the flows of investment in India. The FDI policy as a medium for acquiring advanced technology to mobilize Foreign Exchange Resources. It has been concluded that the India's FDI policy gradually liberalized to make the market more investor friendly, FDI had a positive impact. It also helps to establish new companies and FDI contributes to economic growth of the Indian Economy.

Sandeep Kapoor and Rocky Sachan (2015)[8], "a paper examines Impact of FDI &FII On Indian Stock Markets" The current paper makes an attempt to study the relationship and impact of FDI & FII on Indian stock market using statistical measures correlation and regression analysis. SENSEX and CNX Nifty were considered as the representative of stock market as they are the most popular Indian Stock Market Indices. The study is based on secondary data of 10 years data starting from 2002 to 2011. It was found that the flow of FDI has no significant impact on stock market but FII in India determines the trend of Indian stock market, the two models developed using Multi regression two significant models emerged. In the first model Sensex as a dependent variable, both FDI and FII were found to be significant predictor. Similar results were obtained for second model Nifty as a dependent variable. Hence it has been concluded that the impact of flow of FDI & FII on Indian stock market is significant.

IV. OBJECTIVES OF THE STUDY

The Objectives of the study are

1. To assess the trends of FDI inflow in India and
2. To examine the impact of FDI inflow on macroeconomic variables

V. RESEARCH METHODOLOGY

The data collected for the study is secondary only. The required data for the study have been collected and complied from "INFLIBNET" database centre for monitoring Indian Economy (CMIE) for the period from 1991-2017 and also other required data are collected from various Journals, Books, RBI Bulletin, DIPP and THE WORLD BANK.The study covers a period from 1991-1992 to 2014-2015.The collected data are analysed by using descriptive statistics and regression, the FDI Inflows in Country wise and Sector wise of ten years

VI. ANALYSIS AND INTERPRETATION

The year wise FDI inflows since liberalization from 1991-2016 were collected from its authorized websites and the data were tabulated below

Period	FDI inflows	Period	FDI inflows
1991-92	408	2005-06	24613
1992-93	1094	2006-07	70630
1993-94	2018	2007-08	34843
1994-95	4312	2008-09	41873
1995-96	6916	2009-10	37745
1996-97	9654	2010-11	34847
1997-98	13548	2011-12	46556
1998-99	12343	2012-13	34298

1999-00	10311	2013-14	36046
2000-01	12654	2014-15	45148
2001-02	19361	2015-16	55457
2002-03	14932	2016-17	48032
2003-04	12117	**Mean**	**24880.54**
2004-05	17138	**CAGR**	**0.0102**

Table: 1FDI inflow

Chart: 1 FDI inflow

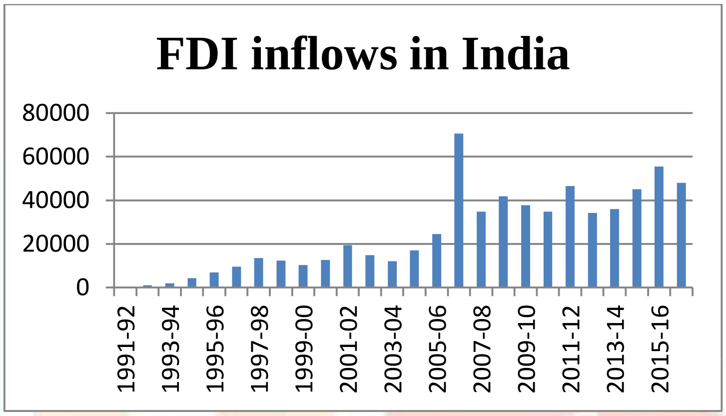

Table1 indicates that the FDI inflows in India during the year 1991 to 2017. There exists a positive upwards trend during the study period. The FDI had a high flows after 2006 and it reached apex level in the year of 2006. The year growth rate of FDI inflows was higher during the period 2006 and the lowest rate was in 2009, because of occurrence of the global recession and economic slowdown in India. The highest rate of FDI inflows during the period 2006-07 was made in sectors like constructionsector, service sectors, and telecommunication sectors.

Country-Wise FDI Inflows:

The overall FDI inflows during the period were segregated according to country wise and the top 10 countries contribution are listed below:

Table: 2 Country Wise FDI Inflows in India (Rs. In crore)

COUNTRY	Mauritius	Singapore	Japan	U. K	Netherland	U.S.A	Germany	Cyprus	France	UAE
2008	50,899	15,727	8,002	3,840	3,922	1,889	1,583	2,750	2,098	1,133
2009	49,633	11,295	5,670	9,230	3,094	4,283	7,728	2,980	1,437	3,017
2010	31,855	7,730	7,063	5,353	3,434	5,501	4,171	908	3,349	1,569
2011	38,155	18,436	12,670	4,189	11,593	4,998	4,883	6,313	2,034	953
2012	51,654	12,594	5,797	12,243	10,054	3,033	2,658	4,684	3,487	987
2013	29,360	35,625	20,426	10,550	13,920	4,807	3,401	6,093	1,842	2,084
2014	35,647	26,246	6,170	8,655	15,630	9,010	2,905	4,703	3,499	1,359
2015	54,706	89,510	17,275	5,938	17,275	27,695	6,361	3,317	3,937	6,528
2016	105,587	58,376	31,588	9,953	22,633	15,957	7,175	4,050	4,112	4,539
2017	21,226	19,403	2,899	904	3,765	4,256	5,142	787	633	390
Total Amt.	468,722	294,942	117,560	70,855	105,320	81,429	46,007	36,585	26,428	22,559
Cumulative Inflows	36.9	23.22	9.25	5.58	8.29	6.41	3.62	2.88	2.08	1.78

Mean	46,872	29494.2	11756	7085.5	10532	8142.9	4600.7	3658.5	2642.8	2255.9
CAGR	-0.08	0.02	-0.10	-0.13	0.00	0.08	0.13	-0.12	-0.11	-0.10
Source: DIPP										

Chart: 1 Country Wise FDI Inflows in India

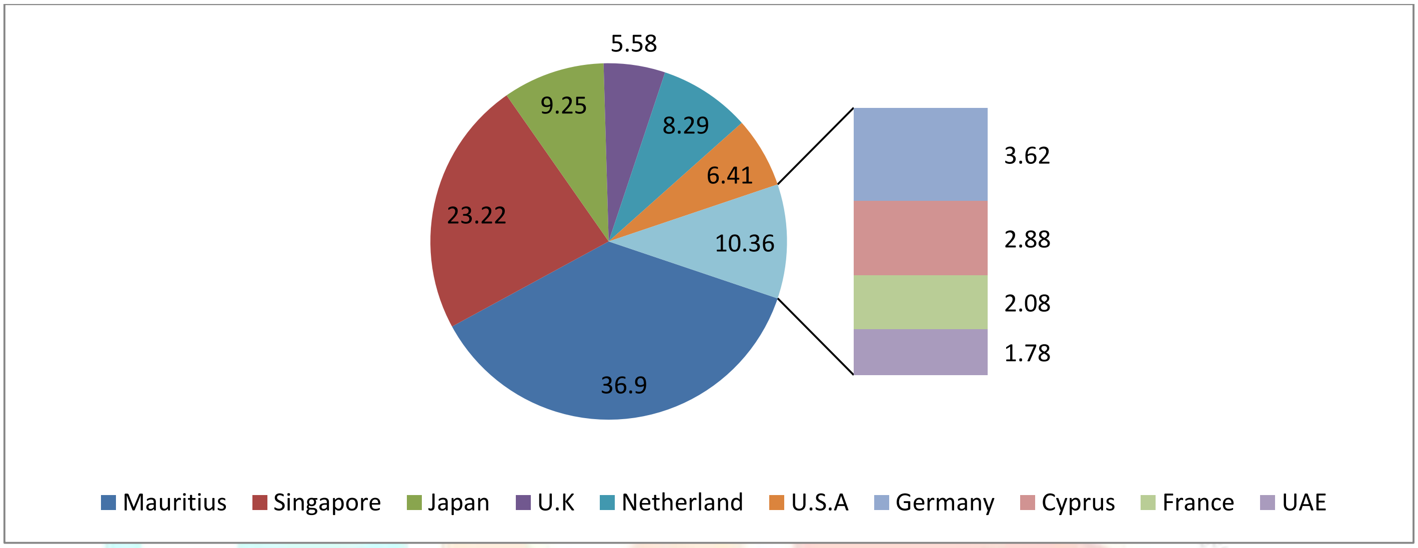

Table 2 reveals that the country wise FDI inflows in India contributed by top 10 countries of India in the period 2008-2017.The largest inflows of FDI's over the period have been received from Mauritius; its share 36.90 per centduring the study period, The Singapore is second with a share of 23.22 per cent. The other sources of foreign direct investment are from Japan, UK, U.S.A, Netherland, Germany, Cyprus, France, and UAE. The minimum inflows of FDI over the period have been received from UAE with share of 1.78 per cent.

Sector-Wise FDI Inflows

The overall FDI inflows during the period were segregated according to its investment made in different sectors and the top 10 sectors are listed below.

Table: 3 Sector Wise FDI Inflows in India (Rs. In crore)

Sectors	services	computer	construction	Telecom	automobile	Pharma	Trading	Chemical	power	hotel
2008	9,863	5,798	6,884	1,457	1,899	3,304	3,304	1,522	2,236	289
2009	19,945	12,270	4,127	14,027	13,469	1,006	6,138	5,893	1,999	1,297
2010	15,053	7,542	3,551	5,600	4,979	961	5,796	5,864	5,023	2,543
2011	22,771	8,984	3,312	2,750	10,859	14,482	7,262	2,916	7,700	951
2012	26,306	7,248	1,654	2,656	6,011	8,384	1,596	2,923	7,878	17,77
2013	13,294	7508	7,987	6896	7191	9,027	4738	6,519	3436	2,949
2014	3445	1317	8966	668	4031	436	563	876	690	1378
2015	45,415	38,351	727	8,637	16,437	4,975	25,244	9,664	5,662	8,761
2016	58,214	24,605	703	37,435	10,824	5,723	15,721	9,397	7,473	6,140

2017	12,134	8,480	1,616	565	4,613	1,811	4,955	4,381	1,139	2,152
Total Amt.	226,440	122,103	39,527	80,691	80,313	50,109	75,317	49,955	43,236	44,23
Mean	22644	12210.3	3952.7	8069.1	8031.3	5010.9	7531.7	4995.5	4323.6	4423
Cumulative Inflows	27.88	15.03	4.86	9.93	9.9	6.17	9.3	6.15	5.32	5.44
CAGR	0.02	0.04	-0.13	-0.09	0.09	-0.06	0.04	0.11	-0.07	0.22
Source: DIPP										

Chart: 2Sector Wise FDI Inflows in India

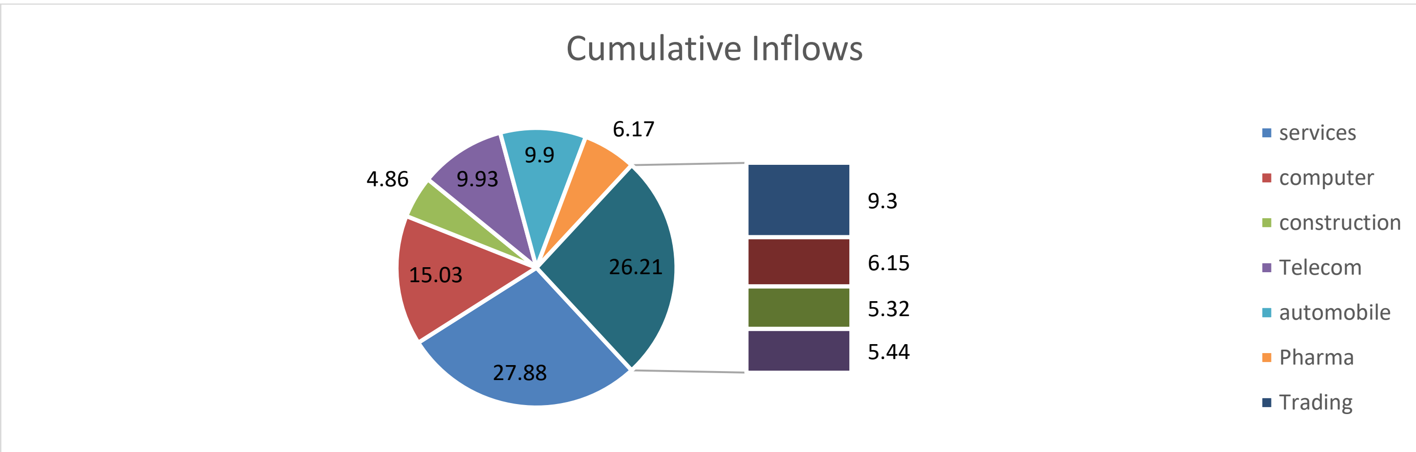

Table 3 elucidates the top 10 sectors wise FDI inflows in India during the period 2008-2017. The largest recipient of such investment is service sector with the share of 27.88 per cent of such inflows of total foreign direct investment. The second recipient is computer software and hardware sector which contributes 15.03 per cent of total FDI. The minimum contribution of FDI of sector is construction activities with the share of 4.8 per cent.

Impact of FDI Inflows on Macroeconomic Variables

In order to test the impact of FDI inflows on country's annual average GDP, Inflation, Foreign Reserves, Exports and Imports. The regression model was used and the result of the regression is given below:

Table: 4 Regression analysis between FDI and GDP

Regression analysis between FDI and GDP									
Model	R	R Square	Adjusted R Square	Std. Error	Change Statistics				
					R Change	F Change	df1	df2	Sig. F Change
1	.147[a]	0.22	-0.10	1.99	0.22	0.176	1	8	0.686

It is understood from table 4, the value of R square is less than 0.5 and hence the regression model has not a valid outcome. The R square value did not support the existence of significance impact of FDI Inflows on country's average annual GDP, the economy changes over time. The regression analysis between FDI and GDP shows the significant value is greater than 0.05, therefore the null hypothesis is accepted, which means the dependence of GDP on FDI in India is not significant and also Hence, it is inferred that the FDI inflow has no significant impact on GDP during the study periods.

Table: 5 Regression analysis between FDI and Inflation

Regression analysis between FDI and Inflation									
Model	R	R Square	Adjusted R Square	Std. Error	Change Statistics				
					R Change	F Change	df1	df2	Sig. F Change
1	.710[a]	.504	.442	1.89646	.504	8.125	1	8	.021

Table 5 portrays that the regression output of FDI and inflation, the significant value is less than 0.05, therefore the null hypothesis is rejected, it shows the stable inflation rateis desirable to attract foreign capital, hence it is concluded that the approximately 50 percent of FDI inflows had significant impact on inflation during the study periods.

Table: 6 Regressions analysis between FDI and Foreign Reserves

Regression between FDI and Foreign Reserves									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.600[a]	.360	.280	7.81046	.360	4.499	1	8	.067

Table 6 reveals, the value of R square is less than 0.5 and hence the regression model has not a valid outcome. The significant value is greater than 0.05, therefore the null hypothesis is accepted, hence it is concluded that the FDI inflow has no significant impact on Foreign Reserves during the study period. The lack of boosting the confidence of the market in the ability of the country to meet its external obligations.

Table: 7 Regression analysis between FDI and Exports

Regression analysis between FDI and Exports									
Model	R	R Square	Adjusted R Square	Std. Error	Change Statistics				
					R Change	F Change	df1	df2	Sig. F Change
1	.769[a]	.591	.574	4366.41152	.591	34.692	1	24	.000

It is inferred from the above analysis that the regression output of FDI and Exports, the significant value is less than 0.05, therefore the null hypothesis is rejected, hence it is concluded that the FDI inflow has significant impact on exports. Upliftment of Exports depend on various factors and FDI is the one of the measured to yield the export growth level.

Table: 8 Regression analysis between FDI and Imports

Regression between FDI and imports									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.775[a]	0.601	0.585	6495.535	0.601	36.179	1	24	0

Table 8 depicts that the regression output of FDI and Imports, the significant value is less than 0.05, hence the null hypothesis is rejected, it is concluded that the FDI inflow has significant impact on imports. The FDI companies have high propensities to import capital and restructure in order to compete with foreign rivals, therefore, imports enhance productive efficiency.

SUGGESTIONS

A Country can only grow if the government policies allow more participation and is able to attract more and more foreign direct investment in india. In recent India provides highest returns on FDI. More efforts needed to increase FDI inflows to country. Government requires huge amount of funds to develop the infrastructure sector in India and should also be prudent while pursuing policies and it should exercise stringent control over inefficient bureaucracy, red-tapism andthe widespread corruption, so that the india can gain the investors' confidence and attract more FDI inflows to India.

CONCLUSION

A large number of changes that were introduced in the country's regulatory economic policies heralded the liberalization era of FDI policy regime in India and the volume of the FDI inflows into economy maintained a fluctuating trend during the period. The present study examined the role of FDI on country's economic condition and also examined the FDI on sector wise and country wise. The study revealed that the movement of GDP and foreign reserves is not similar to the movement of FDI inflows in india, the inflation, exports and imports have a positive impact on FDI inflows. The macroeconomic instability in terms of GDP and foreign reserves has also influencing factor for the flow of FDI. Finally, the study concluded that the FDI has a significant impact on economic growth in India.

REFERENCES

[1]. Shalini Aggarwal, Ankush Singla, Rita Aggarwal "Foreign Direct Investment in India" IJCEM International Journal of Computational Engineering & Management, Vol. 15 issue 5 September 2012.

[2]. Rahul Singh "FDI and its impact on India-curve estimation analysis of FDI & NIFTY (for the period between 2000-2010)" Asian Journals of Research in Business Economics and Management, Vol 3, issue 2 (February, 2013) ISSN: 2249-7307

[3]. Bhavya Malhotra "Foreign Direct Investment: Impact on Indian Economy" Global Journal of Business management and Information Technology, Vol 4 no 1(2014), pp. 17-23, ISSN 2278-3679

[4]. Abdul Khaliq "Foreign Direct Investment and Economic Growth" journal of Economic and sustainable Development, Vol.4 No.1, 2013 ISSN 2222-1700

[5]. Dr. Sandeep Kapoor & Rocky Sachan "Impact of FDI & FII on Indian Stock Markets" International Journals of Research in Finance and Marketing" Vol. 5 issue 4 (May 2015) page no 9-17.

[6]. Department of Industrial Policy & Promotion, Govt of India, Ministry of Commerce & Industry promotion website: http://dipp.nic.in/FDI_Statistics

[7]. www.unctad.org/fdistatistics

[8]. Shodhganga.inflibnet.ac.in

[9]. The World Data Bank Website:
http: //data. Worldbank.org/indicator