International Journal of Science and Research (IJSR)
ISSN (Online): 2319-7064
Index Copernicus Value (2015): 78.96 | Impact Factor (2015): 6.391

# Impact of FDI on Indian Economy - An Analytical Study

**Smitha B Nair[1], Dr. Minimol M.C[2]**

[1]Research Scholar Bharathiar University, Asst. Professor Presidency College, Bangalore

[2]Research Guide Bharathiar University, Asst. Professor RCBS, Rajagiri valley, Kochi

**Abstract:** ***The spectacular and unprecedented growth of FDI in the global economic landscape over the last two decades has made it an integral part of the development strategy of both the developed and developing nations. It acts as a major catalyst in the development of a country through up-gradation of technology, managerial skills and capabilities in various sectors. Foreign Direct Investment (FDI) is considered to be the lifeblood of economic development especially for the developing and underdeveloped countries. It plays an important role in the long-term development of a country not only as a source of capital but also for enhancing competitiveness of the domestic economy through transfer of technology, strengthening infrastructure, raising productivity and generating new employment opportunities. Allowing FDI proves good as improvements in supply chain technologies and informational externalities to local players and competitive dynamics that could benefit consumers and suppliers. The present paper is an attempt to study the trends in flow of FDI in Indian Economy. The paper also focuses on the correlation of FDI inflows with various economic indicators.***

**Keywords:** FDI, Indian Economy, Impact.

## 1. Introduction

Foreign Direct Investment (FDI) is one of the most remarkable developments in the past two decades. Foreign Direct Investment (FDI) in a broader sense is any long term investment by an entity who resides outside the host country. Foreign entity invests money in the host country for a long period of time. They make an initial investment in the beginning and consequently keep investing according to the needs and requirements of the host country which could be in the form of admittance to better ( and cheaper) resources, right of entry to a consumer market or contact to talent specific to the host country - which results in the enrichment of efficiency. This long-term relationship payback both the investor as well as the host country. . FDI investments are considered to be more beneficial for the host country since it directly involves infrastructure development, increase employment opportunities, improved logistic and supply chain system and a lot more to add. It also brings in technology transfer, enhanced governance and management practices. It is an accepted fact that Foreign Direct Investment in any developing/under developed country can play a vital role in its economy; the reason being that there is a gap in the available resources or fund and required resources and fund. It is perceived that FDI fill this gap by pumping required fund and resources and transfer of knowledge and technology as well. This knowledge sharing and technology transfer enhances professional skills, strengthens infrastructure, ensure availability of international brands at doorstep, improve living standards and create employment. FDI is also considered as a progressive tool in attaining self-sufficiency of the country as a whole and certain sectors in particular. Considering its massive size of market, sound economic policies and abundant and skilled human resources, India has always been an attractive destination for foreign investment entities.Make in India is one of the latest developments in Foreign Direct Investment in India. It is formulated to attract more investments from abroad to reinforce India's industrial sector. The initiative is intended to adopt innovation, enhance competency, and preserve intellectual property and shape world's best manufacturing infrastructure in the country. The aim of Make in India program is to utilize the existing skilled human resources thereby creating surplus employment prospects and empowering secondary and tertiary sector. The regulations of this policy is made as such to reduce or eliminate the existing bureaucratic red tape, avoid unwarranted rules and regulations, making the system transparent and Government responsive and accountable

## 2. Review of Literature

Jasbir, S., Sumita, C., & Anupama, S. (2012). Analyze the requirement of FDI in economic development of the country and the trend and role of FDI in enhancing quality products. Their study says that foreign direct investment in a country is the lone and most suitable tool integrating international economy into a country's economy. It further says that FDI helps in the sustainable growth of economy, reduction in BOP etc. They suggests that FDI should not be confined to service sector alone, rather it should invest in infrastructure sector as well for the development of the country.

Anitha,R. (2012). Tries to study the elements determining the inflow of foreign investment and the reasons for lesser inflows and their corrective actions. The paper share the common view that foreign direct investment plays a vital role in the economic progress of any developing country; the reason being the gap of required funds/resources and available funds/resources. The developments and anticipated foreign direct investment for a period of five years are summarized in the study using Autoregressive Integrated Moving Average (ARIMA) technique. The study identifies skilled human resources, huge market size, stable economic structure and ample natural resources as the factors contributing to attract FDI and ascertains lack of political determination, insufficient infrastructure and lack of storage facilities as the causes for less inflow of FDI. Bringing more sectors under the automatic route, increase bilateral trade with more countries by becoming a signatory in the

Agreement of Double Taxation Treaties and enhancing the sectoral cap are recommended as the remedies for increasing FDI into the country.

Renuka, S.,&Lalitha,R. (2013). Conducted a study about the deviation of earlier trend of FDI during the introductory regime of economic reforms and the changes after one and a half decades. Economic reforms were framed with the expectation that it would attract huge foreign direct investment, however initial response was disappointing. After several amendments and relaxations, the investment graph started showing a steady and steep increase giving progressive signs, though India is behind few developing countries like China. The paper conclude with the view that India continues to relax policies to attract more investments and thereby strengthen the country's economy and overall development.

Priyanka, B.,& Ekta, K. (2014). Says that regardless of all favorable conditions, India have attracted less FDI inflows when compared to other countries. The study analyzes the problems and challenges that made the country less attractive and made few recommendations to overcome this situation. The study recommend more liberalized policies of FDI in Airports, insurance, media and retail, in addition to implementation of GST, elimination of bureaucratic hurdles and labor law reforms. The paper further states that implementing these recommendations will definitely help to attract more investments in coming years.

Bhavya, M. (2014).Shares the view that India is a favorable destination for investment by foreign entities. The paper examines the challenges for sustaining India's current position in the competitive field of foreign investment. The study covers areas like factors of FDI inflow, trends and patterns, impact on Indian economy etc. Conclusion of the paper reflects the firm opinion that foreign direct investment in India has had a positive impact and it acts as a catalyst in the economic growth of the country.

Abhishek,V.V. (2015). Has done a quite detailed study and analyzed the trends of foreign direct investment routes, countries and sectors in India during the period 2000-2015. Based on his findings he has concluded that Mauritius has topped in the list as the most dominant investor due to its Double Taxation Avoidance Agreement with India. He also claims that service sector and construction and development sector attracted major investment and continued its development through more job opportunities. With substantial evidence, the paper says that FDI will not only enhance the country's economic growth through more employment, but also achieve overall development through the liberalization measures.

## 3. Research Gap

In fact there have been several studies conducted on FDI, its impact on the growth of Indian economy and stock market has not been analyzed in depth. Hence a gap for research is pertinent.

## 4. Objectives of the Study

- To study the trends of flow of FDI in India -Post reform era.
- To analyze the relationship between FDI and economic growth of the country.
- To evaluate the impact of FDI on Indian Stock Market.

## 5. Scope of the Study

FDI has a major role to play in India's economic development. Many sectors have seen the growth of foreign investment over the past few years. New reforms /policies are being taken by the Government to promote FDI due to which a consistent and rapid growth has been recorded in India**.** The present study takes into consideration FDI inflows in the country in the last twenty four years. The relationship between FDI, GDP and Market Indices were examined. GDP is taken as the proxy for economic growth. NIFTY and SENSEX were taken as the proxies for stock market movements.Trend in the flow of FDI is studied and its impact on country's economic growth is considered to evaluate the country's current liberalized FDI regime.

## 6. Research Methodology

### a) Data Collection

The study is based on quantitative research tools using secondary data. The data used in this study have been collected for the time period of 1992 to 2015. In a limited and phased manner market forces were allowed to govern the foreign direct investment flows during this period. Hence this period is selected.

### b) Analysis and Interpretation

Statistical package for social sciences (SPSS) has been used for analyzing the secondary data which have been collected from the following sources.

1) Various bulletins of Reserve Bank of India
2) Fact sheet of Department of Industrial Policy and Promotion (DIPP)
3) Various issues of UNCTAD, Economic Survey-Government of India
4) World Bank

**Table 1:** Trend of FDI, GDP, NIFTY and SENSEX

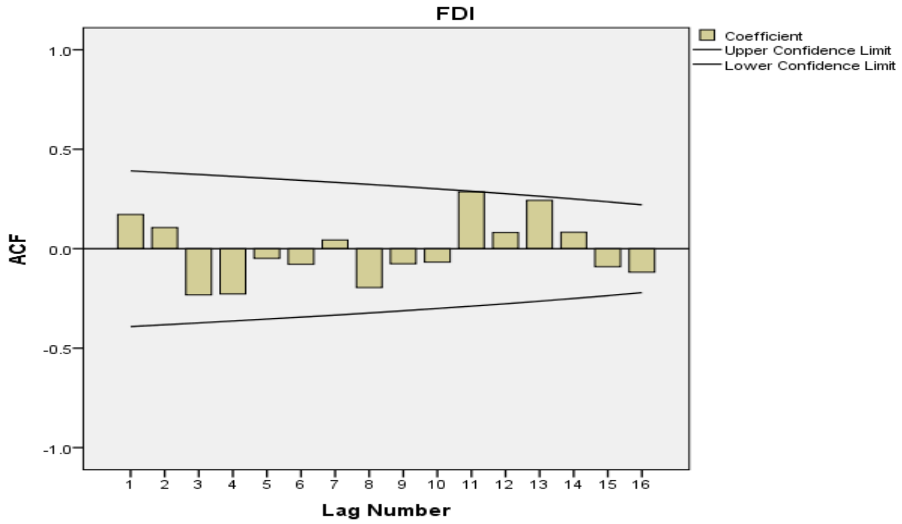
| Year | FDI (US$ Million) | GDP (US$ Million) | NIFTY (US$ Million) | SENSEX (US$ Million) |
|---|---|---|---|---|
| 1992 | 252 | 285176.4 | 830.01 | 2615.37 |
| 1993 | 532 | 278384 | 885.52 | 3346.06 |
| 1994 | 974 | 318925.1 | 1203.06 | 3926.9 |
| 1995 | 2151 | 361957.2 | 962.64 | 3110.49 |
| 1996 | 2525 | 381492.8 | 1006.59 | 3085.2 |
| 1997 | 3619 | 414237.5 | 1087.50 | 3658.98 |
| 1998 | 2633 | 416885.4 | 955.39 | 3055.41 |
| 1999 | 2168 | 444434.8 | 1368.62 | 5005.82 |
| 2000 | 3587.99 | 458561.1 | 1334.76 | 3972.12 |
| 2001 | 5477.638 | 473441.7 | 1077.03 | 3262.33 |
| 2002 | 5629.671 | 494986.7 | 1037.23 | 3377.28 |
| 2003 | 4321.076 | 579668.7 | 1427.50 | 5838.96 |
| 2004 | 5777.807 | 701347.4 | 1805.26 | 6602.69 |
| 2005 | 7621.769 | 820980 | 2515.48 | 9397.93 |

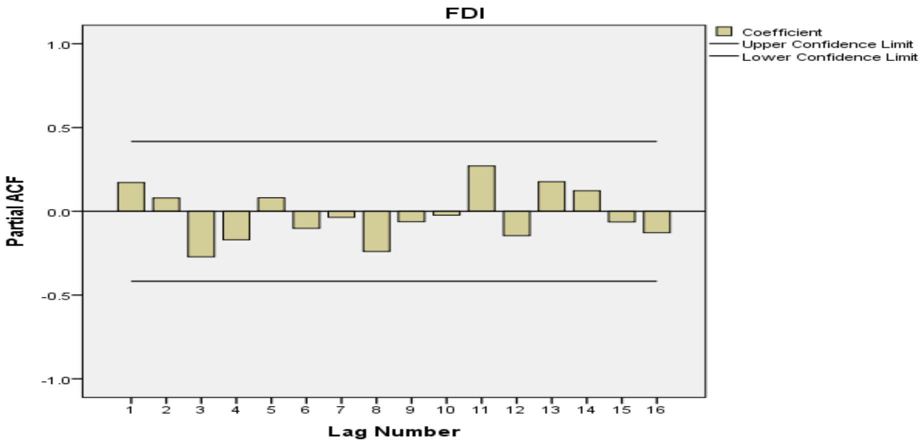
International Journal of Science and Research (IJSR)
ISSN (Online): 2319-7064
Index Copernicus Value (2015): 78.96 | Impact Factor (2015): 6.391

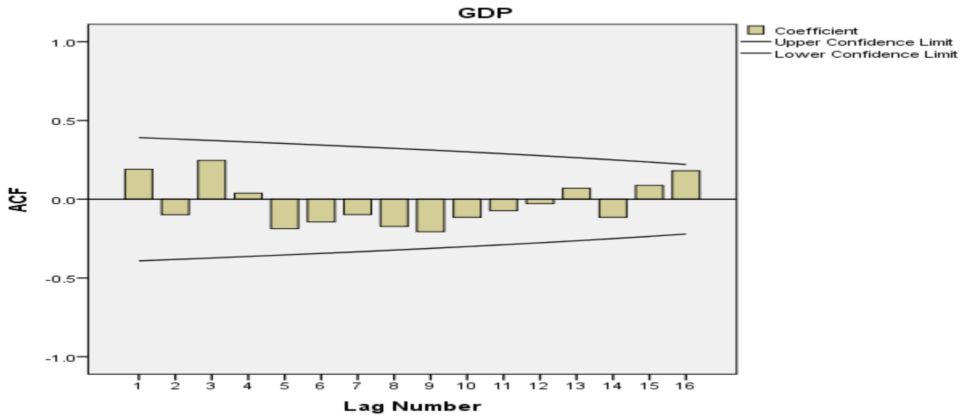
| | | | | |
|---|---|---|---|---|
| 2006 | 20327.76 | 929215.2 | 3572.44 | 13786.91 |
| 2007 | 25349.89 | 1182321 | 4896.60 | 20286.99 |
| 2008 | 47102.42 | 1268588 | 3731.03 | 9647.31 |
| 2009 | 35633.94 | 1311852 | 4657.77 | 17464.81 |
| 2010 | 27417.08 | 1668768 | 5583.54 | 20509.09 |
| 2011 | 36190.46 | 1892420 | 5242.74 | 15454.92 |
| 2012 | 24195.77 | 1869210 | 5520.34 | 19426.71 |
| 2013 | 28199.45 | 1936088 | 6009.51 | 21170.68 |
| 2014 | 34582.1 | 2054941 | 7967.34 | 27499.42 |
| 2015 | 44208.02 | 2219669 | 7983.79 | 26117.54 |

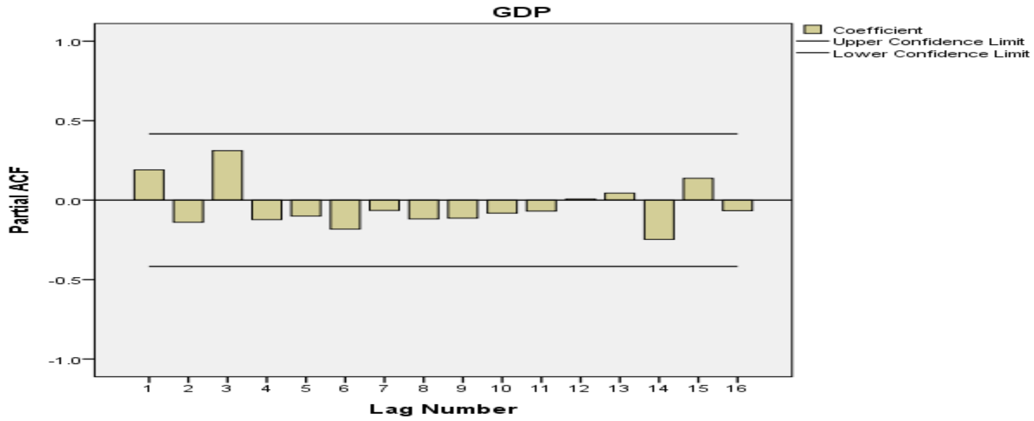
Source: compiled & computed from the various issues of RBI Bulletin, UNCTAD

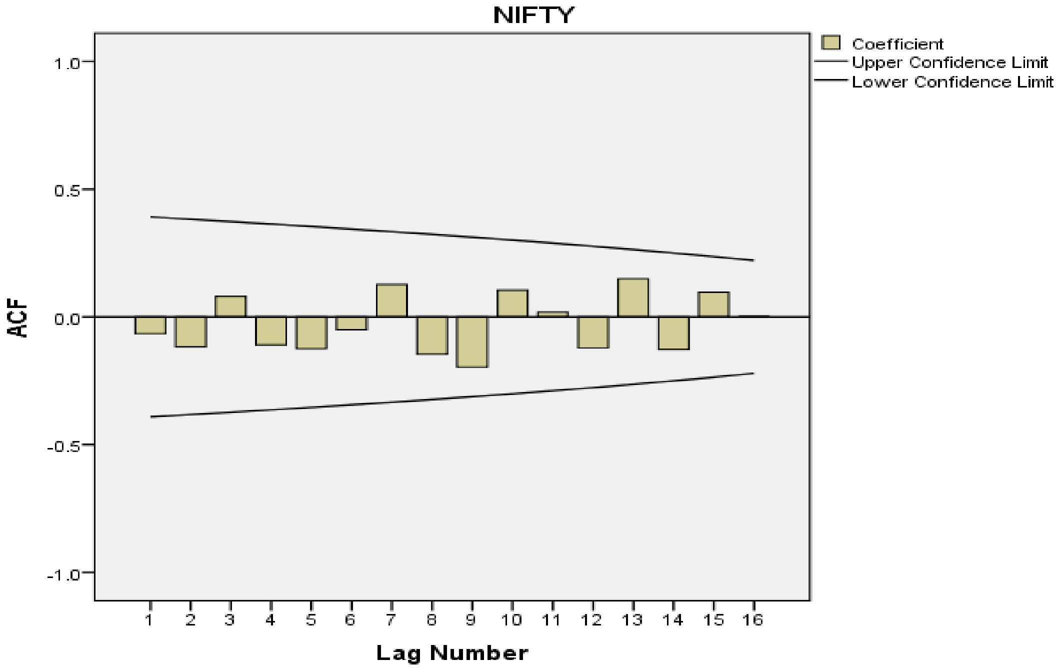
The study used time series data. So before checking the variables one need to check whether the relation is auto correlated or not. There is a tendency of the data to be correlated ie, the relation of the variables with its own previous values. The results are summarized below.

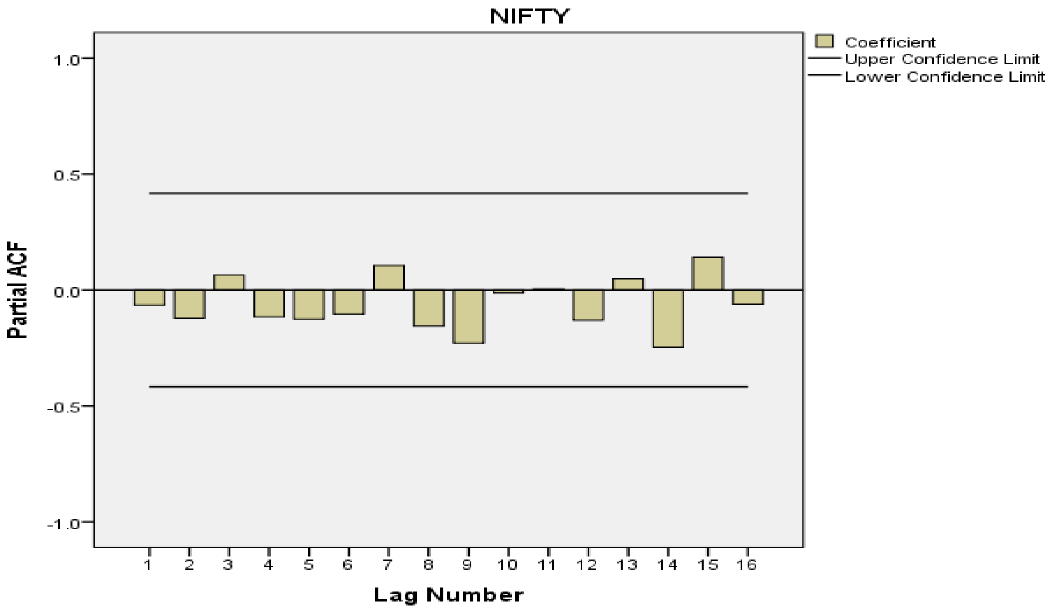


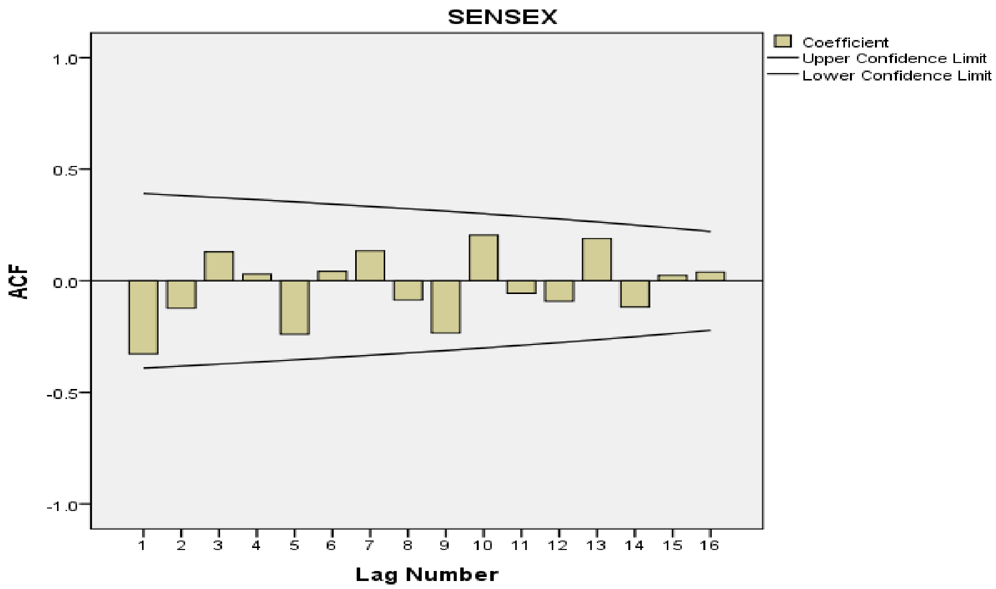



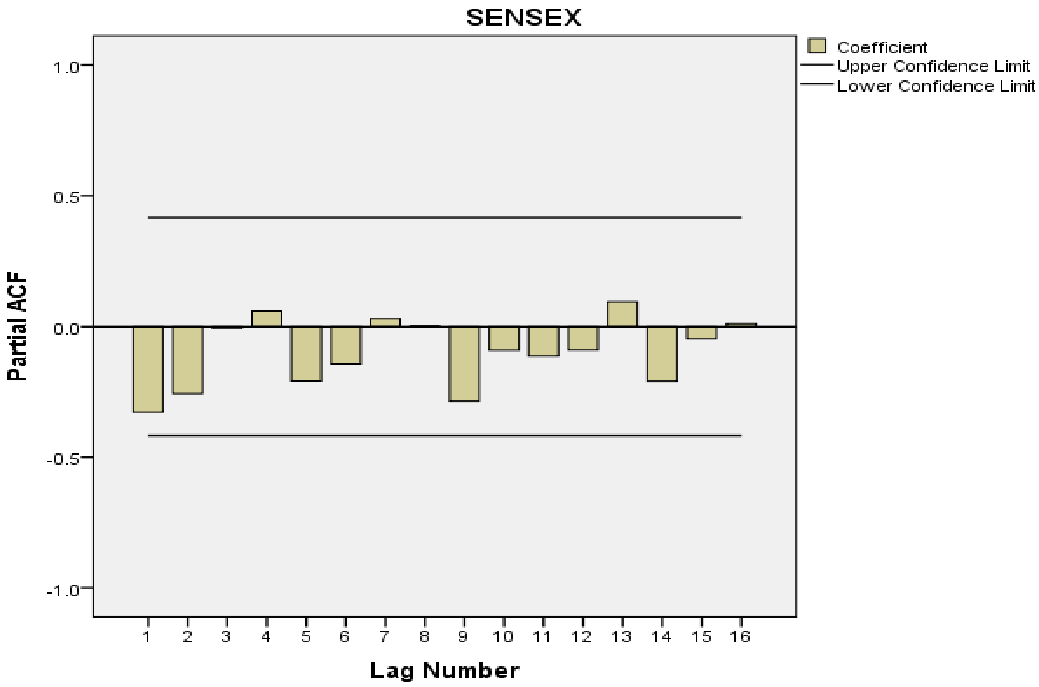




GDP
Coefficient
Upper Confidence Limit
Lower Confidence Limit
Partial ACF
1.0
0.5
0.0
-0.5
-1.0
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16
Lag Number


NIFTY
Coefficient
Upper Confidence Limit
Lower Confidence Limit
ACF
1.0
0.5
0.0
-0.5
-1.0
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16
Lag Number


NIFTY
Coefficient
Upper Confidence Limit
Lower Confidence Limit
Partial ACF
1.0
0.5
0.0
-0.5
-1.0
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16
Lag Number




So the variables are tested for ACF & PACF and it shows that the data are stationary not spurious hence analysis can be done in the level variable itself. Logarithmic transformation of the data is used for analysis.

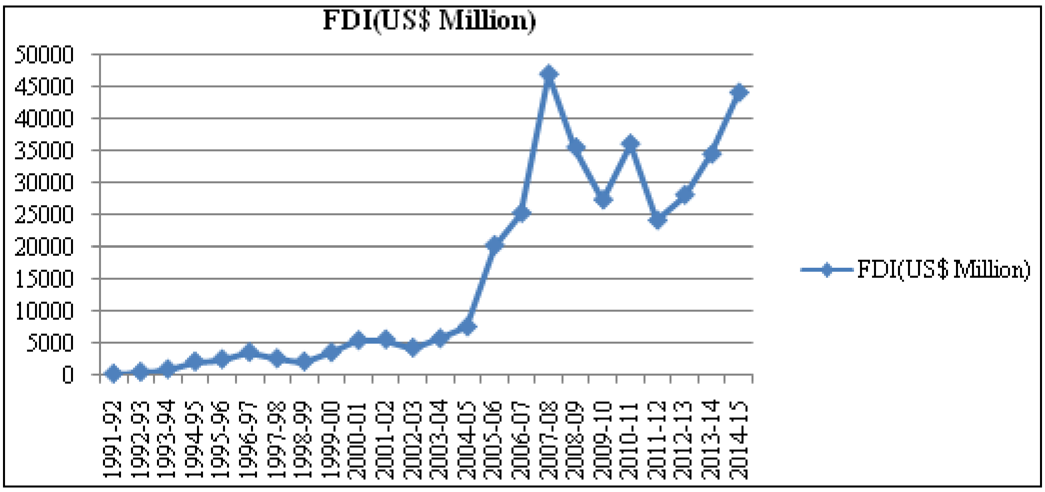



**Figure 1:** Trend of FDI Inflows

**Table 2:** Statistical Summary

| Descriptive Statistics | | | |
|---|---|---|---|
| | Mean | Std. Deviation | N |
| FDI | 15436.535 | 15658.692 | 24 |
| GDP | 948481.28 | 660048.48 | 24 |
| NIFTY | 3027.5704 | 2371.0822 | 24 |
| SENSEX | 10484.163 | 8312.8808 | 24 |

**Table 3:** Correlation Coefficients

| | FDI | GDP | NIFTY | SENSEX |
|---|---|---|---|---|
| FDI | 1 | | | |
| GDP | .896** | 1 | | |
| NIFTY | .889** | .977** | 1 | |
| SENSEX | .842** | .947** | .988** | 1 |
| ** Correlation is significant at the 0.01 level(2-tailed) | | | | |

Correlation was applied to study the statistical relationship between the variables FDI and BSE SENSEX, FDI and GDP and NSE NIFTY. From the above table it can be concluded that there is very strong positive correlation between FDI and BSE SENSEX, FDI and GDP and FDI and NSE NIFTY. The correlation is found significant at 1 percent level of significance.

## 7. Findings of the Study

1) The FDI inflows into the country have shown an increasing trend during the period under study i.e. between 1992-2015.
2) There is strong positive correlation between FDI and GDP growth of the country.
3) There is strong positive correlation between FDI and BSE SENSEX movements.
4) There is strong positive correlation between FDI and NSE NIFTY movements.
5) Thus after analyzing the statistical data it can be concluded that GDP of the country and stock movement were dependent to a greater extend on the FDI inflows into the country.

## 8. Conclusion

A significant attribute of India's reorganization program is that it has emphasized gradualism and evolutionary changeover rather than hasty streamlining or "shock therapy". This move was adopted since the reforms were introduced in June 1991 in the wake a balance of payments crisis that was certainly severe. Nevertheless, it was not a lengthened calamity with a stretched period of non-performance. The revised FDI policy includes 100 percent through the government approval route, in defense, resulting in access to capital formation and technological enhancement. In short now most of the sectors would be under automatic approval route making India one of the most open economies in the world for FDI which will be beneficial to the economy.

## References

[1] Jasbir, S., Sumita, C.,& Anupama, S., (2012). *Role of Foreign Direct Investment in India: An Analytical Study.*Retrieved from http://www.researchinventy.com/papers/v1i5/E015034042.pdf
[2] Anitha,R.,(2012). *Foreign Direct Investment and Economic Growth in India.* Retrieved from http://indianresearchjournals.com/pdf/IJMFSMR/2012/August/8.pdf
[3] Renuka, S., & Lalitha, R., (2013). *Sectoral Trends and Patterns of FDI in India.* Retrieved from http://indianresearchjournals.com/pdf/IJMFSMR/2013/July/12.pdf
[4] Bhavya, M., (2014). *Foreign Direct Investment: Impact on Indian Economy.* Retrieved from https://www.ripublication.com/gjbmit/gjbmitv4n1_03.pdf
[5] Priyanka, B., & Ekta, K.,(2014*). Analysis of Inflows of Foreign Direct Investment in India – Problems and Challenges..* Retrieved from https://www.ripublication.com/gjfm-spl/gjfmv6n7_10.pdf
[6] Abhishek, V.V. (2015). *An Analytical Study of FDI in India.* Retrieved from http://www.ijsrp.org/research-paper-1015.php?rp=P464654
[7] http://www.dipp.nic.in
[8] https://www.rbi.org.in/scripts/BS_ViewBulletin.aspx
[9] http://statisticstimes.com/
[10] http://unctad.org/en/Pages/statistics.aspx