Foreign Direct Investment: A trend and its impact on India's Gross Domestic Product

P. Mohamed Idris
Research Scholar, BSMED, Bharathiar University, Coimbatore

Introduction

Foreign Direction Investment plays a vital role in a country in developing its economy. The requirement of FDI in any country is purely based on its rate of investment and savings. It bridges the gap between savings and investments. The shortage of domestic savings can be replaced by foreign investment, also the latest technological development, technical know-how and expertise knowledge also can be transferred to host country. but both domestic investment and foreign investment both are equally important, the former helps to create domestic savings, employment and consumption, whereas the later helps to reduce the gap between domestic savings and foreign investment.(Anil Duggal, 2017) last two decades the entire globe has witnessed a huge change through Foreign Direct Investment (FDI) which means investment from foreign country to the home which in return provides economic development. From various studies it can be understood that Foreign Direct Investment (FDI) have been trigger for accelerating the economic growth of a country. comparison between India and its neighboring countries are the witness of this. But the pattern of FDI and its impact on the economy varies from country to country. (Pooja , Sengupta, Roma Puri). FDI is a kind of investment where foreign funds brought up into home country's organisation from the organisation operates in a foreign country. Foreign Direct Investment can be two types namely inward foreign direct investment and outward foreign direct investment. FDI usually made by Multi National Corporations (MNC) in the following formats.

- Equity Capital – it is the mode where the foreign players used to buy shares of home country
- Reinvested earnings – it is the retained profits made up from the normal operation of business which is not distributed as dividend and reinvested in the busiess.
- Intra – Company loans – it refers to the loan between parent enterprises and member enterprises.

Reasons for FDI

There are four reasons why firms undertake FDI activities (Dunning, 1993)

- The multinational companies wish to invest in another country to find new users for selling their goods and services. This is called as Market seeking
- The Multi National Corporations invest in abroad to get cheaper inputs such as raw materials, semi finished goods and cheap labour which are essential for supplying of goods. Penrose (1958) and Cantwell (1989)
- The MNC's invest in host country in order to build strategic assets like distribution channels, networks, advanced technologies and expertise knowledge.
- FDI may come into the host country to get geographical oriented benefits from the country where it is located. It can get the advantages like cultures, economic systems, policies and market types. (Dunning, 1993, 59).

Objective of the study

I. To analyse the trend of Foreign Direct Investment in India
II. To analyse the relationship between Foreign Direct Investment inflows and Gross Domestic Product in India
III. To analyse the relationship between FDI inflows and economic growth in India

Research Methodology

In this research study secondary data has been used to study the objectives. The secondary data has been collected from the sources such as Reserve Bank of India (RBI) bulletin, DIPP, reports of International Monetary Fund (IMF) and World Bank. Karl Pearson's co-efficient of correlation used to explore the relationship between Foreign Direct Investment inflow and GDP.

FDI inflows

Year	Total FDI (US $ Million)	Annual rowth
2014	19,439.5	----
2015	32,002.7	64%
2016	32,068.1	0.2%

2017	35,836.6	9.5%
2018	27,286.1	(-) 24%

Source : Source: Department of industrial policy and Promotion

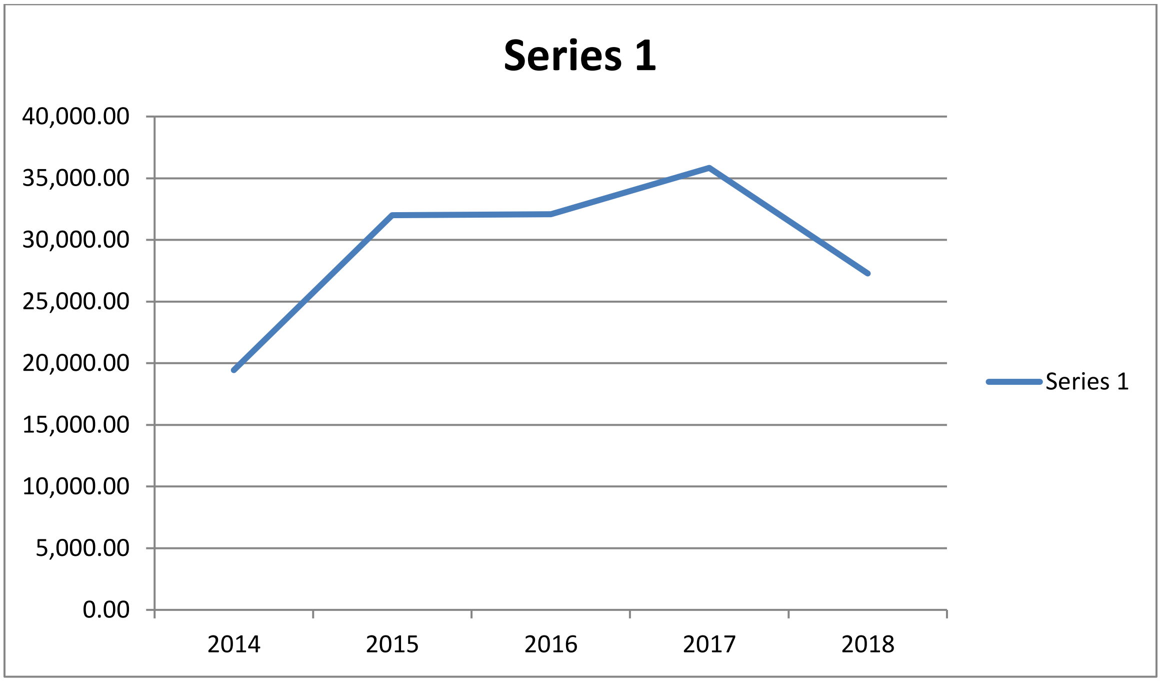

Figure 1 : Foreign Direct Investment Inflows in India 2014- 2015

The above figure clearly shows that FDI inflows from 2014 – 2018. The inflows of FDI increases steadily in recent years. After the introduction of liberlisation India managed to attract foreign investments gradually and steadily. The trend started to pick up after 2004, but between 2008 to 2010 FDI investment around the globe faced a sharp decline due the recession. India also face the same situation, but managed to recover after some years. Further in 2015 there was a sharp increase in FDI inflows. The change in the political environment influenced the foreign player to come towards Indian market and then investment from foreign countries started to pouring into the market.

Sectors wise FDI inflows (2014-15 to 2018 -19)

Sectors	Year (US $ Million) (2014-15 to 2018-19)	Percentage (%)
Service	32,122.38	21.91

CS & H	22,905.66	15.62
Telecom	18,287.40	12.47
Housing	11785.27	8.04
AUT	10,878.71	7.42
Chemical	6,656.82	4.54
Power	5,267.72	3.59
H&T	4,901.60	3.34
I&B	3,792.87	2.59
MET	3,219.95	2.20

Sectors attracting highest FDI in India

In the last 5 years when we look upon the FDI inflows into India service sector tops the list in attracting foreign investment with the amount of USD 32,122.38 which is 21.91% of total FDI inflow. Other sectors such as Computer software and Hardware, Telecommunication and Housing and construction attracted good amount of FDI, whereas Automobiles, Chemicals, Power, Hotel and tour, Information and Broadcasting and Metallurgical sectors moderate and minimum amount of FDI.

According to Department for Promotion of Industry and Internal Trade (DPIIT), In 2018-19 alone, FDI in service sector grew 36.5 per cent to $9.15 billion. After China, India ranked in 2nd position after china in fastest growing service sector.

FDI and GDP of India

Foreign Direct Investments is playing vital role in determining the economic growth of countries as it affects the Gross Domestic Product (GDP) rate. There are so many factors influence the economic growth of a country but both FDI and GDP are playing vital role and acting as an important determinant. But the pattern of FDI inflows to India and its neighborhood countries differ. So the impact inflows also different and varied. There have been various researches carried out and the result were conflicting. Most importantly the economic policies of respective country playing a vital role in affecting the economy of a country.

GDP Annual Growth

Year	GDP	Annual Growth(%)
2014	2,039,127M.$	7.40%
2015	2,103,588M.$	8.20%
2016	2,289,754M.$	7.10%
2017	2,652,245M.$	6.70%
2018	2,718,732M.$	6.80%

https://countryeconomy.com/

Year	GDP Annual growth	Total FDI (US $ Million)
2014	7.40%	19,439.5
2015	8.20%	32,002.7
2016	7.10%	32,068.1
2017	6.70%	35,836.6
2018	6.80%	27,286.1

https://countryeconomy.com/

Karl person's coefficient of correlation for the Annual growth of GDP and Total inflow of FDI for period from 2014 – 2018 is -0.3232. (r = -0.3232)

The above statistical analysis show the relationship between Annual GDP growth and Total FDI inflows is negatively correlated with each other. So when there is a increase in the FDI inflow there is a slight decrease in the GDP. But when we look very carefully there is no clear picture as both variable does not perfectly correlated negatively. The previous research also suggested the same (Dr Ampu Harikrishnan, Ms Shivani 2018). Qaiser Abbas, Salman Akbar, Ali Shan Nasir ,Hafiz Aman Ullah and Muhammad Akram Naseem (2011), suggest that increasing trend of FDI also increase the GDP of a country. Asha E. Thomas (2017), suggested that FDI is considered to be a tool to bring some positive aspects, it has also sometimes brought negative impact on the economy.

Limitations

- We have taken into consideration only FDI inflows and GDP, macroeconomic factors such as interest rate, inflation rate, rupee value, export and import data were ignored.
- The time period is only five years from 2014 – 2018

Conclusion

Investments are playing vital role in determining the growth any country. India continued to receive good amount of investment from the foreign players. Especially sectors such as services, Telecommunication and Computer software and Hardware received a high amount of investment and it showed a positive trend. On the other hand there is slight negative correlation between FDI and GDP which is an important determinant in measuring the economic growth of a country. steps have to be taken increase the investment in other sectors too.

Reference

1. Dr Ampu Harikrishnan, Ms Shivani (2018), Evaluation of FDI in India as a Growth Engine of GDP in the Country, 4th International Conference on Advancement in Engineering, Applied Science and Management (ICAEASM 2018), ISBN: 978-93-87433-28-1
2. Dunning, J. (1973), The Determinants of International Production, Oxford Economic Papers, New Series, Vol. 25, No. 3 (Nov. 1973), pp.289-336.
   Kalpana Sahoo, Narayan Sethi, Impact of Foreign Capital on Economic Development in India: An Econometric Investigation, Global Business Review, 2017
3. Pooja Sengupta and Roma Puri, Exploration of Relationship between FDI and GDP: A Comparison between India and Its Neighbouring Countries, Global Business Review, 2020, vol. 21, issue 2, 473-489
4. Qaiser Abbas, Salman Akbar, Ali Shan Nasir ,Hafiz Aman Ullah and Muhammad Akram Naseem, Impact of Foreign Direct Investment on Gross Domestic Product, Global Journal of Management and Business Research, Volume 11 Issue 8 Version 1.0 August 201 1, ISSN: 0975-5853
5. Rangappa E., 2013. "Impact of Foreign Direct Investment on Indian Economy," Advances In Management, Advances in Management, vol. 6(8), August.

6. Thomas Asha E. (2016). Impact of FDI on Indian Economy – An Analytical Study. International Journal of Business and Administration Research Review, 1, (4), 91-94
7. https://dipp.gov.in/
8. https://countryeconomy.com/