

Foreign Direct Investment in India: An Empirical Investigation of its Impact on Economic Growth

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Abstract

India, exploring the patterns of FDI inflows over the last two decades and their influence on GDP. The analysis is based on secondary data collected from the World Bank and RBI websites.

FDI inflow was \$ 4029 million in the year 2001 increased to \$ 21,809 million in year 2021-22. Despite the pandemic, India recorded the highest annual inflows FDI. The Indian government is still implementing open and liberal policies in order to attract the foreign investment, where most of FDI under the automatic route.

India's GDP has been increasing progressively since 2008. According to the Ministry of Commerce and Industry's vision, India has the fundamental power and capacity to become an economy valued at \$5 trillion by 2025.

Keywords: FDI, liberalization, GDP, Economy, RBI, DPIIT

INTROUDUTION

Foreign direct investment, or FDI, has been steadily increasing in both industrialized and developing nations as a means of encouraging global economic integration.

Acquisitions and merger the construction of new facilities, the reinvested earning from operation abroad, and intra - company loans are the example of FDI. Another definition FDI is the net inflow of investment (inflow-outflow) used to purchase a long- term managerial stake (10% or more) in a business that operates in an economy other than the investor's. Its entails involvement in collaborative ventures, technology and expertise transfer and management.

Capital given to an FDI business by a foreign financier is included in FDI flows. Foreign direct investment (FDI) has three components – Equity capital, Reinvested earring, Intra-company loan. Equity capital is the money that a foreign direct investor invests in a firm that is not in their own country. The portion of affiliate earnings that are not given to direct investors as dividends is known as reinvested earnings. These earnings are treated as if they were remitted to the investors and then reinvested back into the enterprise, impacting the financial accounts of direct investment.

Intra-company loans involve borrowing and lending between direct investors and their affiliates, which can be short or long-term. An increase in reinvested earnings can indicate growth or profitability within the affiliate, while changes in intra-company loans reflect financial strategies between the entities involved.

FDI in India is a main source for economic development in India. Foreign corporations make direct investments in rapidly expanding private, Prospective enterprises aiming to capitalize on reduced labour costs and India's evolving business climate. Following the 1991 financial crisis, India undertook economic liberalization, which spurred a consistent rise in foreign direct investment and resulted in the creation of over 10 million jobs.

India modified its foreign direct investment (FDI) policy in April 2020 to shield Indian enterprises from "opportunistic takeover/acquisition of Indian companies due to the COVID-19 pandemic," according to the Department for Promotion of Industry and International Trade (DPIIT). Despite the new FDI policy's lack of market restrictions, the Ministry of Commerce and Industry is now mandated to oversee all FDI.

FDI Policy reforms to bolster Investment (Economic Survey of India 2022-23)

- The Indian government is building infrastructure, lowering regulatory barriers, increasing the quota on FDI, and making doing business easier in an effort to fascinate foreign corporations. The administration has made a number of revolutionary adjustments to FDI across a range of industries, including defence, pensions, and e-commerce.
- *To raise the allowance for FDI in the 2020 fiscal year, the administration has started a variety of initiatives.* 26 percent of FDI under the government route is allowed for the uploading and streaming of news and current affairs via digital media, whereas 100 percent of FDI under the automated route is allowed for the selling of coal and coal mining activities. Complete foreign direct investment (FDI) is allowed in intermediaries, often known as insurance intermediaries. These intermediaries include corporate representatives, surveyors, loss assessors, reinsurance brokers, insurance consultants, and insurance brokers.
- *The National Single Window System (NSWS) and (FIF Portal) Foreign Investment Facilitation Portal have been linked to serve as the Government of India's online single-point interface for investors to enable FDI.*
- *In order to ease the process and encourage ease of doing business, the government abolished the FIPB (Foreign Direct Promotion Board) and delegated authority to the relevant Ministries/Departments and DPIIT.*

REVIEW OF LITERATURE

Singh et al. (2012) Their research revealed that industrialised countries attract the most global investment flows, while developing and underdeveloped countries do not. He also concluded that the amount of foreign investment flowing into India is increasing. Financing, insurance, real estate, and business services have received the most foreign direct investment.

R. Anitha (2012) in her paper, "Foreign Direct Investment and Economic Growth in India," that although FDI into the nation has expanded since liberalisation, India's worldwide share of FDI is lesser than that of other emerging nations. In her research, she also revealed that low FDI is thought to be caused by a number of factors, including inadequate infrastructure, an uncertain political and governmental landscape, high

corporate tax rates, and a lack of export processing zones. To draw in more foreign direct investment, the Indian government must immediately implement creative policies and sound corporate governance procedures.

Bhavya Malhotra (2012) he found in his research that all international organisations, including the World Bank, regularly rank India as one of the top three places in the world to invest.

Tilak Raj and Ashima Pahwa (2018) found in their studies that each country tries to bring maximum FDI as there is significant effect of FDI on the nation's economy. To facilitate the FDI inflow countries need to liberalize FDI policy, improve infrastructure and political stability.

DR Dhadurya Naik M (2020) has found that the value of R is 0.775 which indicates high degree of correlation between predictor (FDI) and outcome (GDP) and can be consider as a good indicator. It is also found there is significant impact FDI on GDP of the country.

(Kalavagada Swathi Malla Reddy 2021) identifies the relationship between FDI and economic development (increase in standard of living) current model of startups may be in advantageous in attracting FDI in the intense market seeking for service industries.

Objective of study

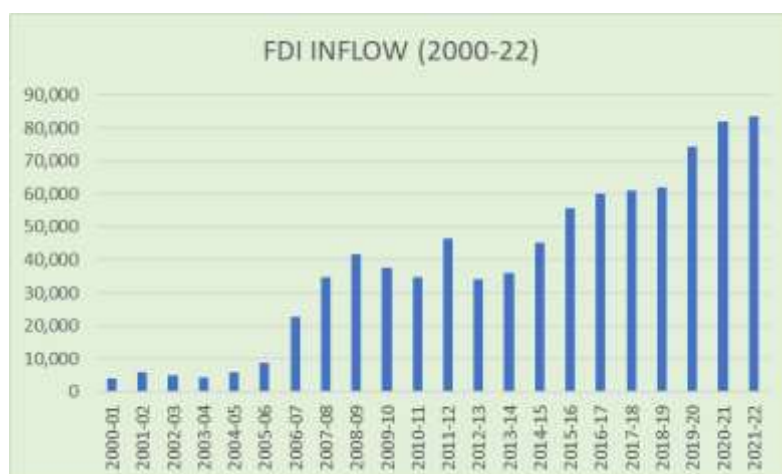
- ❖ To examine the flow of foreign direct investment (FDI) into the Indian economy from 2001 to 2023.
- ❖ To investigate the impact of foreign direct investment on GDP growth

Finding and Data Analysis

Table 1: Foreign Direct Investment Inflows (FDI)

Year	Total FDI inflow	%age growth over previous year (in USD terms)
2000-01	4,029	-
2001-02	6,130	(+) 52 %
2002-03	5,035	(-) 18 %
2003-04	4,322	(-) 14 %
2004-05	6,051	(+) 40 %
2005-06	8,961	(+) 48 %
2006-07	22,826	(+) 155 %
2007-08	34,843	(+) 53 %
2008-09	41,873	(+) 20 %
2009-10	37,745	(-) 10 %
2010-11	34,847	(-) 08 %
2011-12	46,556	(+) 34 %
2012-13	34,298	(-) 26%
2013-14	36,046	(+) 5%
2014-15	45,148	(+) 25%
2015-16	55,559	(+) 23%
2016-17	60,220	(+) 8%
2017-18	60,974	(+) 1%
2018-19	62,001	(+) 2%
2019-20	74,391	(+) 20%
2020-21	81,973	(+) 10%
2021-22	83,572	(+) 2%
Cumulative total	8,47,400	-

Source: Department of Industrial policy & promotion, Govt. of India



Source: Department of Industrial policy & promotion, Govt. of India

Author interpretation Based on the above data table no 1

Table 2: Trend Analysis of FDI Inflow

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

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

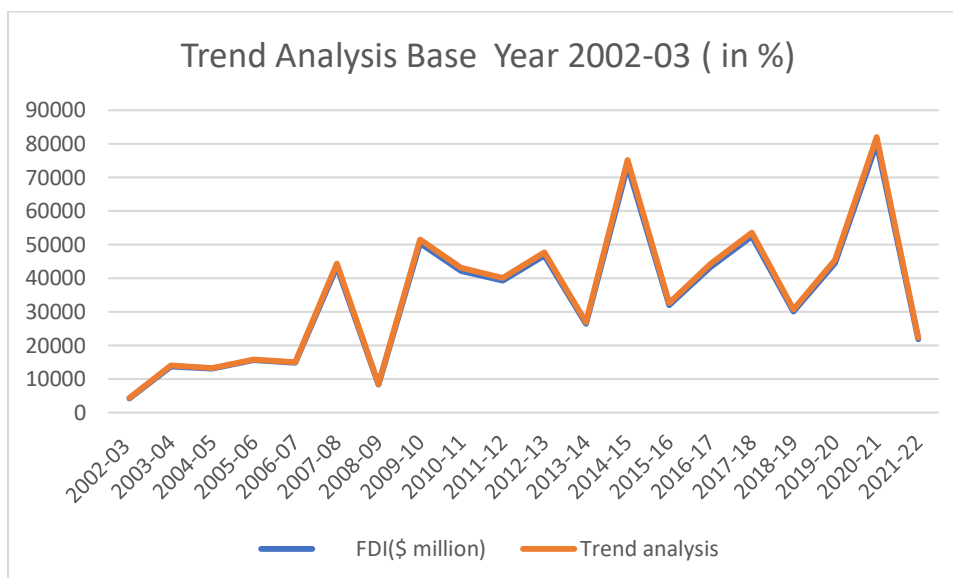


Table 2 uses 2002–03 as the base year to illustrate the foreign investment inflows over a 20-year period. The trend % of foreign investment is displayed in the above table. The data and graphic show that FDI inflow to

India has been increasing steadily, with a notable rise in 2007–2008. This demonstrates the government's transparency in easing regulations and removing barriers to entry for FDI (Foreign Direct Investment) in order to liberalize and globalize the external world. The global financial crisis had an effect on both FDI influx and GDP globally. India experienced same decline at the same time from 2009 to 2013 till government's implemented "Made in India initiative" to encourage investment. It continues to rise and in 2020–21 it reaches a trend percentage of 1824.83%. The policies pertaining to foreign investors have been progressively liberalized during the past eight years, and the majority of sectors are now 100% open to FDI under the automatic method. Because of this, there has been a noticeable structural change in the gross FDI inflows to India with USD 84.8 billion, the highest-ever annual gross FDI inflow was reported in FY22. These patterns support India as a location for international investor.

Table: 3 this table show FDI inflow and its consequence 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	16.8
2004-05	1300	-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 Regression Statistics

Multiple R	0.76362006
R Square	0.583115596
Adjusted R Square	0.562271376
Standard Error	0.398815226
Observations	22

Table: 5 ANOVA

	<i>df</i>	<i>SS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	4.449512845	27.97492975	0.000035
Residual	20	3.181071685		
Total	21	7.63058453		

	<i>Coefficients</i>	<i>Standard Error</i>	<i>P-value</i>
Intercept	2.923997528	0.83634597	0.002275272
FDI	0.440330762	0.083251971	0.000035

Table 4 Regression Statistics show the amount of variation in GDP due to variation in FDI. The value of R Square =0.58311 in table 4 indicate that 58.3% variation in GDP is due to FDI.

Table 5 shows the AVOVA analysis in which value of $F=27.974$ which is significant at 5% level of significance as p value is equal to 0.000035 which is less than 0.005.

The coefficient of FDI inflow (\$ million) is 0.044 which specify that for every one unit of FDI inflow the predicated value of GDP increases by 0.044 billion USD, remaining other variable constant. The corresponding p-value (significance) for variable is 0.000035, further supporting its statistical significance.

Hypothesis Testing

H_0 : FDI inflows have little to no substantial effect on GDP growth.

Since the p-value for FDI influx is 0.000035—less than 0.005—the null hypothesis is disproved, and it is determined that FDI inflow significantly affects the GDP of the Indian economy.

Conclusion

Foreign direct investment (FDI), alongside domestic capital, plays a critical part in enhancing the technology and expertise of existing enterprises. It also contributes to the establishment of new businesses, collectively supporting the growth of the Indian economy. Studies indicate a positive correlation between FDI and GDP. An analysis of the data reveals consistent GDP growth since 2000-01, with a notable decline in 2007-08, during which FDI inflows proportionally increased. While FDI contributes to GDP growth, it is not the sole determining factor. Other significant influences include labour productivity, physical capital, and the availability of natural resources, completely of which significantly affect GDP growth in any country.

Over the previous decade, India has emerged as an attractive destination for FDI among both developed and developing nations. Enhancing ease of doing business, improving infrastructure, fostering skill development, and liberalizing FDI policies are key strategies to increase FDI inflows. By implementing various economic reforms and promoting FDI, India can work toward achieving its goal of becoming a \$5 trillion economy.

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