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Impact of Foreign Direct Investment on Gross Development Production of India

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Abstract

It is always important to attract the foreign direct investment as it is the major consideration proceeding to invest their money into foreign countries. India is estimated to require around US$ 1 trillion during the 12th Five-Year Plan period (2012–17), to fund infrastructure in sectors such as roads, airports and ports. The government is in the process of liberalising FDI norms in construction activities and railways, which could bring in investments to meet the target. This research paper is descriptive in nature, analyses FDI Inflows and examine the relationship between the GDP growth rate and Growth rate of FDI inflows. This study is based on published sources collected from various official website. The data extracted from the following sources such as Handbook of Statistics on the Indian economy, RBI, Economic Survey, Government of India, Department of Industrial Policy and Promotion (DIPP) Secretariat of Industrial Assistance (SIA), Central Statistical Organization (CSO). Appropriate statistical tools used to analyse the data.

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INTRODUCTION

Foreign Direct Investment is flow of capital between countries in form of inflows and outflows. India is considered as one of the biggest nation and created impact in the minds of business people as a favourable destination for Investment. Foreign Direct Investment plays a very important role in the developing countries. It is considered as essential for the developing and underdeveloped nations. Capital formation is determinant tool for the economic growth. Strong reason for having FDI in underdeveloped and developing countries is to have more savings and income to meet the required expectation in the growth of economy. **(R. Anitha, August 2012).** Foreign Direct Investment is desperately needed for the developing and underdeveloped countries in the long-term development of a country not only as a source of investment i.e. inflows and outflows but also for increasing competitiveness of the national economy through transfer of technology, reinforcement infrastructure, floating productivity and generating new employment opportunities (**Syed Azhar & K.N.Marimuthu, January 2012).** Globalization opened the door for India to take necessary steps towards allowing FDI. In India Foreign Inflow is started from 1991-92 with the objective of bringing sustainable growth through savings and income. The last decade of the 20th century witnessed an extreme increase in Foreign Direct Investment (FDI), escorted by a marked change in the attitude of most developing countries towards inward investment.

According to the Reserve Bank of India, "A direct investment is defined as incorporated or unincorporated enterprise in which a direct investor, who is a resident in another economy, owns 10% of the ordinary shares or voting power (for an incorporated enterprise) or the equivalent (for an unincorporated). As such, a company in which 10% or more equity capital is held by a single non -resident investor is defined as a Foreign Direct Investment Company."
According to the international monetary fund, FDI is defined as "Investment that is made to acquire lasting interest in an enterprise operating in an economy other than that of investor. The investor's purpose is being to have an effective voice in the management of enterprise."

LITERATURE REVIEW

FDI has been recognized as an important driver for economic growth and development. One of the most striking developments during the last two decades is the spectacular growth of FDI in the global economic landscape. **(Mr. Shashank Goel, Mr. K. Phani Kumar, Prof. K. Sambasiva Rao, 2012).**
Indian growth is primarily driven by private consumption demand i.e. spending on food, clothing, rent, education, vacations and all other activities. It sums up close to almost 60% of Gross Domestic Product (GDP). Consumption growth has been sustained at 8 % till now. Slowdown in investment and government expenditure has been bolstered by consumption to enable India to grow at respectable rate. **(Prof. Swaha Shome & Prof. Davinder Suri, 2012).**
There are many economic forces not only two or three in numbers which directly or indirectly affects GDP of a country. Therefore we can say that GDP cannot be isolated from the other forces of the economy. The Qualitative forces like literacy, unemployment etc which seems to be

unrelated to the GDP also contributed indirectly to the GDP of a country. The factors like Inflation, FDI, Export, Industrial production directly contributed to the growth of the GDP which further represent the growth of the Country. **(Pradeep Kr, 2011).**

Competition among Provinces and Effects of Laws" GDP has contributed importantly and positively in explaining FDI in the provinces with ex-tremely difficult socio-economic conditions (ranked first). However, this is especially accurate in local with better conditions (ranked second) such as Da Nang city. **(Nguyen Dinh Chien &, Kezhong Zhang,)**

Foreign Direct Investment inflows have the maximum impact on the Gross Domestic Product of India. The country is estimated experience a growth of 23.6% with a 1% increase in the inflows of Foreign Domestic Investment. Majority of FDI inflows are found in the services sector and a little less than that in the manufacturing sector. Since almost 70% of India is engaged in agricultural farming, there is hardly an improvement in the levels of employment generation by FDI, resulting in 'jobless growth'. **(Netrja Mehra,)**

OBJECTIVES OF THE STUDY

- To analyse the FDI inflows in India.
- To study the country wise and sector wise FDI inflows in India
- To evaluate the impact of FDI in India

Methodology

Data Collection

The study is based on published sources of data collected from various sources. The data was extracted from the following sources:

- Handbook of Statistics on the Indian economy, RBI, various issues
- Economic Survey, Government of India, various issues
- Department of Industrial Policy and Promotion (DIPP)
- Secretariat of Industrial Assistance (SIA)
- Central Statistical Organization (CSO)

Statistical Tools used for analysis

Compound Annual Growth Rate (CAGR) is used to analyse the FDI inflows in India. Correlation and Regression is used to analyse the relationship between Foreign Direct Investment inflows and GDP of the India.

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TABLE 1
Financial Year-Wise FDI Inflows Data (in US$ millin)

S NO	Financial Year (April-March)	FOREIGN DIRECT INVESTMENT (FDI)						Investment by FII‟s Foreign Institutional Investors Fund (net)
		Equity		Re-invested earnings +	Other capital+	FDI FLOWS INTO INDIA		
		FIPB Route/ RBI‟s Automatic Route/ Acquisition Route	Equity capital of unincorporated bodies #			Total FDI Flows	%age growth over previous year (in US$ terms)	
		1	**2**	**3**	**4**	**1+2+3+4= 5**		
FINANCIAL YEARS 2000-01 to 2013-14 (up to July, 2013)								
1.	**2000-01**	2,339 (13) (11)	61 (13)	1,350 (14)	279 (13)	**4,029 (14)**	-	**1,847**
2.	**2001-02**	3,904 (11)	191 (11)	1,645 (12)	390 (10)	**6,130 (10)**	**(+) 52 %**	**1,505**
3.	**2002-03**	2,574 (12)	190 (12)	1,833 (11)	438 (9)	**5,035 (12)**	**(-) 18 %**	**377**
4.	**2003-04**	2,197 (14)	32 (14)	1,460 (13)	633 (7)	**4,322 (13)**	**(-) 14 %**	**10,918**
5.	**2004-05**	3,250 (10)	528 (8)	1,904 (10)	369 (11)	**6,051 (11)**	**(+) 40 %**	**8,686**
6.	**2005-06**	5,540 (9)	435 (9)	2,760 (8)	226 (14)	**8,961 (9)**	**(+) 48 %**	**9,926**
7.	**2006-07**	15,585 (7)	896 (5)	5,828 (7)	517 (8)	**22,826 (7)**	**(+) 146 %**	**3,225**
8.	**2007-08**	24,573 (4)	2,291 (1)	7,679 (6)	300 (12)	**34,843 (6)**	**(+) 53 %**	**20,328**
9.	**2008-09**	31,364 (2)	702 (7)	9,030 (3)	777 (5)	**41,873 (2)**	**(+) 20 %**	**(-) 15,017**
10.	**2009-10 (P) (+)**	25,606 (3)	1,540 (2)	8,668 (4)	1,931 (3)	**37,745 (3)**	**(-) 10 %**	**29,048**
11.	**2010-11 (P) (+)**	21,376 (5)	874 (6)	11,939 (1)	658 (6)	**34,847 (5)**	**(-) 08 %**	**29,422**
12.	**2011-12 (P)**	34,833 (1)	1,022 (4)	8,206 (5)	2,495 (2)	**46,556 (1)**	**(+) 34 %**	**16,812**
13.	**2012-13 (P)**	**21,825 (6)**	**1,059** (3)	**11,025** (2)	**2,951(1)**	**36,860 (4)**	**(-) 21%**	**27,583**
14	**2013-14 (P)(Apr-Jul, 2013)**	**7,054 (8)**	**317** (10)	**2,747** (9)	**1,591 (4)**	**11,709 (8)**	**-**	**-**
CUMULATIVE TOTAL From April 2000 to June 2013		**202,020**	**10,138**	**76,074**	**13,555**	**301,787**	**-**	**144,654**

Note: In bracket indicates ranking
Source: (i) RBI‟s Bulletin September, 2013 dt. 10.09.2013

Table 1 Shows the Financial Year Wise FDI inflows to India which includes Equity (FIPB Route/ RBI‟s Automatic Route/ Acquisition Route and Equity capital of unincorporated bodies' #) Re-invested earnings +, other capital+.

Compound Annual Growth Rate for the total FDI inflows in India

Formula for CAGR

Ending value= 36,860

Beginning value= 4029

No. of years = 13 (2000-01 to 2012-13)

CAGR= 20.15 %

Over the last 13 years (from 2000-01 to 2012-13) there is a significant growth in the FDI inflows towards India. i.e.**20.15 %**

Table 2
Country wise and Sector wise FDI inflows in India (US Million $)

Source/Industry	2010-11	2011-12	2012-13	2013-14	2014-15 P
1	2	3	4	5	6
Total FDI	14,939	23,473	18,286	16,054	24,748
Country-wise Inflows					
Mauritius	5,616 (1)	8,142 (1)	8,059 (1)	3,695(2)	5,878 (1)
Singapore	1,540 (2)	3,306 (2)	1,605 (3)	4,415(1)	5,137 (2)
U.S.A	1,071 (6)	994 (7)	478 (8)	617 547 (7)	1,981 (5)
Cyprus	571 (7)	1,568 (5)	415 (10)	546 (8)	737 (9)
Japan	1,256 (4)	2,089 (4)	1,340(4)	1,795 (3)	2,019 (4)
Netherlands	1,417 (3)	1,289 (6)	1,700(2)	1,157 (4)	2,154 (3)
United Kingdom	538 (8)	2,760 (3)	1,022 (6)	111 (17)	1,891 (6)
Germany	163 (14)	368 (10)	467 (9)	650 (6)	942 (8)
UAE	188 (12)	346 (11)	173 (15)	239 (11)	327 (13)
France	486(9)	589 (9)	547 (7)	229 (12)	347 (12)
Switzerland	133 (16)	211 (15)	268 (12)	356 (10)	292 (15)
Hongkong	209 (11)	262 (12)	66 (18)	85 (18)	325 (14)
Spain	183 (13)	251(13)	348 (11)	181 (14)	401 (11)
China	2(18)	73 (17)	148 (16)	121 (15)	505 (10)
Malaysia	40 (17)	18 (18)	238 (13)	113 (16)	219 (16)
South Korea	136 (15)	226 (14)	224 (14)	189 (13)	138 (18)
Luxembourg	248 (10)	89 (16)	34 (17)	539 (9)	204 (17)
Others	1,142 (5)	892 (8)	1,154 (5)	1,015 (5)	1,250 (7)
Sector-wise Inflows					
Manufacturing	4,793 (1)	9,337 (1)	6,528 (1)	6,381 (1)	9,613 (1)
Construction	1,599 (2)	2,634 (2)	1,319 (5)	1,276 (3)	1,640 (5)
Financial Services	1,353 (3)	2,603 (3)	2,760(3)	1,026 (6)	3,075 (2)
Real Estate Activities	444 (11)	340 (13)	197 (11)	201 (13)	202 (14)
Electricity and other Energy Generation, Distribution & Transmission	1,338 (4)	1,395 (6)	1,653 (4)	1,284 (2)	1,284 (6)
Communication Services	1,228 (5)	1,458 (5)	92 (14)	1,256(4)	1,075 (7)
Business Services	569 (8)	1,590 (4)	643 (6)	521 (9)	680 (9)
Miscellaneous Services	509 (9)	801 (8)	552 (7)	941 (7)	586 (10)
Computer Services	843 (6)	736 (9)	247 (9)	934 (8)	2,154 (4)
Restaurants and Hotels	218 (14)	870 (7)	3,129 (2)	361 (10)	686 (8)
Retail & Wholesale Trade	391 (12)	567 (10)	551(8)	1,139 (5)	2,551 (3)
Mining	592 (7)	204 (14)	69 (15)	24 (15)	129 (16)
Transportation	344 (13)	410 (12)	213 (10)	311 (11)	482 (11)
Trading	156 (15)	6 (16)	140 (13)	0 (16)	228 (13)
Education, Research & Development	56 (16)	103 (15)	150 (12)	107 (14)	131 (15)
Others	506 (10)	419 (11)	43 (16)	293 (12)	232 (12)
P: Provisional					
Note: Includes FDI through SIA/FIPB and RBI routes only.					
Note: in bracket indicates ranking					

Source: RBI Annual Report 2014-15

Country Wise Compound Annual Growth Rate for the period of five years (2010-11 to 2014-15)

Rank	Country	CAGR (in %)
15	Mauritius	0.92
5	Singapore	27.24
8	U.S.A	13.9
13	Cyprus	5.24
10	Japan	9.96
12	Netherlands	8.74
4	United Kingdom	28.58
2	Germany	42.03
9	UAE	11.71
18	France	-6.52
6	Switzerland	17.03
11	Hong-kong	9.23
7	Spain	16.99
1	China	201.3
3	Malaysia	40.5
16	South Korea	0.29
17	Luxembourg	-3.83
14	Others	1.82

Sector wise Compound Annual Growth Rate for the period of five years (2010-11 to 2014-15)

Rank	Sector Wise	CAGR (in %)
6	Manufacturing	14.93
10	Construction	0.51
5	Financial Services	17.84
	Real Estate Activities	-14.5
11	Electricity and other Energy Generation, Distribution & Transmission	-0.82
12	Communication Services	-2.63
8	Business Services	3.63
9	Miscellaneous Services	2.86
3	Computer Services	20.64
2	Restaurants and Hotels	25.77
1	Retail & Wholesale Trade	45.51
15	Mining	-26.27
7	Transportation	6.98
13	Trading	-3.43
4	Education, Research & Development	18.53
14	Others	-14.44

Table 2, reveals, there is a growth of FDI from Country-wise and Sector-wise from the year 2010-11 to 2011-12. The growth rate of FDI is not satisfactory in the year 2010-11, 2012-13 and 2013-14. In the year 2014-15, FDI inflows increased by **64.86%.** Sector wise inflows also have a negative impact in the years 2010-11 and 2012-13. Mauritius, Singapore, U.S.A, Cyprus, Japan are the major countries invested in India.

Manufacturing, Construction, Financial Services, Real Estate Activities, Electricity and other Energy Generation Distribution and Transmission, Communication Services and Business Services are the major sectors attracting towards FDI in India. In the year 2011-12, every sector has progressed more than **100%**. Real estate have decreased consistently in the year from 2010-11 to 2012-13. But FDI has decreased consistently in the years 2009-10, 2010-11, 2012-13 and 2013-14.

Ending value= **24,748**
Beginning value= **14,939**
CAGR = **10.6%**
Compound Annual Growth Rate for the showing the positive sign i.e **10.6%**
There is a positive impact for country-wise and sector wise inflows from the year 2010-11 to 2014-15.

Table 3
Growth Rate of FDI inflows &
Growth Rate of GDP

Year	Growth Rate of FDI Inflows %	GDP Growth rate %
2001-02	14	----
2002-03	-37.76	3.6
2003-04	330	6.26
2004-05	-5.5	18.13
2005-06	19.44	20.07
2006-07	-5	15.6
2007-08	293.67	13.77
2008-09	-90.75	30.5
2009-10	603.7	-1.18
2010-11	-16.4	11.54
2011-12	-7	25.3
2012-13	19	9.88
2013-14	-43.5	-1.13

Source: RBI Annual Report 2013-14

Table 3 reveals that, there is negative moderate relationship between Growth Rate of FDI inflows and GDP Growth rate that is -0.477.

Results of GDP vs FDI as follows

Multiple regression value is **0.477062** and R square is **0.227588**, which means the independent variable FDI is explaining the GDP growth in India by **22%,** which suggests **78%** variations,

adjusted R square is **0.150347**, that is only **15%** of the data is being explained by the regression equation. F value is **2.946464** is less than the table value at **5%** level of significance **5.0503**. So FDI is contributing for the development of GDP. P value is **0.000475** which fits the data.
It is important to know that Growth Rate of FDI Inflows in the year 2003-04 (330%), 2007-08 (293.67%) and 2009-10 (603.7%) have made significant growth, but in the same years GDP growth rate is not satisfactory, in 2003-04 its only 6.26, in 2007-08 it is having 13.77% and when FDI inflows are more in 2009-10 its having negative growth rate that is -1.18%.

Findings

1. There is a significant growth in FDI inflows in India except some of the years such as 2002-03 **(-18%)**, 2003-04 **(-14%),** 2009-10 **(-10%),** 2010-11 **(-8%)** and 2012-13 **(-21%)** because of negative growth. In the year 2006-07, significant growth of **146%** of increase in FDI inflows.
2. Mauritius is always on the top and showing more interest in investing in India.
3. Manufacture, Construction, Financial Services, Real Estate Activities, Electricity and other Energy Generation, Distribution & Transmission, Communication Services, Business Services are the major sectors attracting toward FDI in India.
4. In the year 2011-12, every sector has progressed more than **100%**. Real estate have decreased consistently in the year from 2010-11 to 2012-13. But FDI has decreased consistently in the years 2009-10, 2010-11, 2012-13 and 2013-14.
5. There is negative moderate relationship between Growth Rate of FDI inflows and GDP Growth rate that is **-0.477.**
6. When FDI inflows increases, but still India could not able to contribute more towards GDP growth rate. 2003-04 **(330%),** 2007-08 **(293.67%)** and 2009-10 **(603.7%)** have made significant growth, but in the same years GDP growth rate is not satisfactory, in 2003-04 its only **6.26**, in 2007-08 it is having **13.77%** and when FDI inflows are more in 2009-10 its having negative growth rate that is **-1.18%**
7. It is important to know that Growth Rate of FDI Inflows in the year 2003-04 **(330%),** 2007-08 **(293.67%)** and 2009-10 **(603.7%)** have made significant growth, but in the same years GDP growth rate is not satisfactory, in 2003-04 its only **6.26**, in 2007-08 it is having 13.77% and when FDI inflows are more in 2009-10 its having negative growth rate that is -1.18%.

Suggestions

1. Indian government need to be still more liberal to attract FDI inflows.
2. India need to target some of the European countries to invest in India to make significant changes in business operations
3. FDI inflows should not restrict only for few areas, there should be equal preference for all sectors of business.
4. Indian economy need to capitalise on FDI Inflows and need to increase the growth of GDP to avoid economic crisis.

Conclusion

FDI always brings certain benefits to national economies. It can contribute to Gross Domestic Product, Gross Fixed Capital Formation and balance of payments. India emerging as a major worldwide player – the quick development of its economy on all-inclusive scale, particularly the services and information technology sector, provide ample opportunity for foreign investors. In the critical face of Indian economy the government of India with the help of World Bank and IMF introduced some of the measures such as macro-economic stabilization and structural adjustment program.

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