International Journal of Innovations & Research Analysis (IJIRA)
ISSN : 2583-0295, Volume 01, No. 01, April - June, 2021, pp 38-42

# FOREIGN DIRECT INVESTMENT: A STRATEGIC CHANGE IN ECONOMY

Dr. Ashok Kumar*
Dr. Ravi Kant Modi**

**ABSTRACT**

*The Foreign Direct Investment (FDI) phenomenon is a manifestation of international capital flows and economic interactions constitutes the financial dictum of this era. With the incredible explosion in transportation, information and communication technology together with incessant liberalization of trade and investments, the nations across the world have undeniably become more and more integrated. The centre of gravity of internationalization of endeavour has gradually shifted its base from commodity trading to swapping over of things of production. Sourcing, manufacturing and assembling from some foreign land in the variety of FDI became quite easy and customary nowadays. Furthermore, a paradigm shift has been observed since the appearance and widespread popularity of digital technology. During this era of knowledge, a transformation is being noticed in the roles of developed, transition, emerging and developing economies facing a digital divide. The digital economy is basically modifying the methods during which the companies manufacture and market products and services across the nations. The multi-national corporations (MNCs) with a digital presence can now directly have communication with all the customers and can sale to even outside India without any need of heavy investment outside India. Their economic effect on other economies has consequently become more ethereal and fewer discernible in productive capacity augmentation and employment generation. The host countries generally perceive FDI to be the simplest way of filling up the void between the prevailing supplies of savings, exchange, government income, technological knowhow and human capital skills in an economy, and also the desired level of those resources essential to realize growth and development targets. On the opposite hand, foreign companies treats FDI as vital instrument to identify manufacturing and marketing activities throughout national precincts in accordance with their corporate stratagems, to avail themselves of the competitive advantages of the host economies.*

---

***Keywords:*** *FDI, MNCs, Digital Technology, Developing Economies, Liberalization.*

---

## Introduction

Initially, the MNCs accustomed follow the standard resource or market seeking strategy. Thereafter it graduated to strategic asset-seeking and/or efficiency-seeking strategy, where production in the host country wasn't strictly associated with the resource base or the market size of the economy; rather, comparative cost factor became the principal propulsion. Riding on the wave of digital technology, now the strategy has become market-seeking again, but with a fresh outlook. With the remarkable shift in the importance of FDI during this digitized globe, the world is experiencing a momentous transformation in the pattern and trend of FDI inflows. External financial flows to any economy generally includes

---

* Assistant Professor, Department of Business Administration, Jai Narain Vyas University, Jodhpur, Rajasthan, India.
** Associate Professor & Head, Department of EAFM, Faculty of Commerce, LBS PG College, Jaipur, Rajasthan, India.

personal capital investments, Forien Direct Investments, foreign portfolio investments (FPI), and many others. The globe Investment Report (WIR) 2017, advocate by the world organization Conference on Trade and Development (UNCTAD), finds that FDI is always the most important as well as smallest amount and flexible sources of finance (from External sources) to the all under developed countries. Their consistent stability in and after the 2008-2009 global financial crisis is because of their minimalistic short term circular movements as well as lesser insensitivity, as compared to FPI and other means of foreign investments. However, although ODA and remittances don't seem to be totally impervious to unfavorable developments in the world economy, they appear to fluctuate but FDI and have always remained insignificant in volume as compared to FDI. The prolonged tepid world economy process has provided the facility of making available of external finance, serious issue to domestic finance facility. Presently enormous investments in infrastructure such as electricity, water etc. climate change, health, education and investments in output capacity so to come up with more employments and income which became extremely essential as per the massive requirements of investments as related to Sustainable Development Goals (SDG).

**Objective of Study**

With this backdrop, the principal objectives of conducting this study are:

- To produce a quick historical review of the change of Foreign Direct Investment in India;
- To check the status of FDI in India with other developed and emerging economies;
- To re-investigate the character and direction of causal relationship among FDI and other selected macroeconomic variables of India, both in the future also as short run; and
- To conduct an empirical study to investigate the performance of select industrial sectors of India with respect to FDI inflows.

**Review of Literature**

**Mukherjee and Patel (2005)** has observed in their research the those some of foreign retailers who are associated with various manufacturers, mainly with small one, for use of their own labels and providing them technologies, and packing facility as well as Bar Code facility. Such Foreign retailers are now procuring the products from retailers of India, but with the condition that the Indian retailers will use their technology only and no doubt their effective chain for supply management. By this way the Indian Retailers use to get the easiest finance becomes automatically part of world business. In addition to this there is no possibility of competition as such with importers.

**Bose, Jayashree (2007),** This study has been conducted to make a comparative analysis of FDI of India and its one of the biggest competitor China. The Study has analysed various matters of Foreign Direct Investment related to inflow and its utilization in India as well as in China. Various other factors such as Impact of Globalization, various trends, and other issues on FDI has also been used for making analysis for their research.

**Ramaiah (2013)** conducted a quest on the economy of the state of Karnataka of India over a period of ten years during 2000 to 2010 to seek out out that the FDI flows had positively impacted both income and employment levels in Karnataka. FDI inflows had significantly impacted the state's economy both in terms of increase in the volume of investment and creation of job opportunities to plenty of unemployed technocrats. Hence, in step with the author, the state had an obligation to form a congenial and investment friendly environment to draw in higher volume of FDI inflows into Karnataka for betterment.

**Karthik & Kannan (2011)** investigated the impact of FDI and other major contributing factors on the SMD of India. The results supported the complementary role of FDI in the SMD of India. Other macroeconomic variables affecting SMD were found to be domestic savings, Gross National Product (GNP) per capita, and inflation.

**Duan (2010)** compared the general trends and industrial patterns of FDI inflows in Brazil, India, Russia and China (BRIC) and explained their determinants. The paper identified three main factors that determined the economic patterns of FDI inflows in the BRIC: stage of development, resources and also the business environment. Though the general trend of the FDI inflows in BRIC had been increasing over the past decade, the pattern of FDI inflows was different for every industry. In Brazil, Russia and India, the tertiary sector received the most FDI inflows, while the first sector received the smallest amount. But just in case of China, the secondary sector dominated the bulk of the FDI inflows and also the primary and tertiary sectors received only a small amount.

**Role of FDI in India**

India has become more integrated to the worldwide economy during the post-liberalization era, and hence is more liable to global meltdowns. Ranging from a baseline of US$ 252 million in 1992, India has been identified because the 10th largest recipient of FDI inflows in 2016 at around US$ 45 billion by the UNCTAD WIR 2017. Moreover, Daniel Altman's Baseline Profitability Index has judged India because the most engaging international investment destination. The demographic profile and growth trends have made India a wise investment destination for the previous few years. Along with her changing stance on the FDI issue, improved investor-friendly investment climate and healthy competition among the states to draw in FDI inflows, India is predicted to be a fair more attractive FDI destination in the years to come back. A paradigm shift transpire in the FDI Policy of India in 2000 when most of the functions have been taken within the automated route of Foreign Direct Investment approval. Caps or maximum permissible limits for FDI has been expanded in various sectors. In 2010, in congruence with the rationalization process, all at present norms on foreign Direct investment is now aggregated in one document for easy reference. Now the FDI agenda isn't only restricted to increasing caps or covering more sectors, instead it's highlighting on removing red tapism and providing a congenial investment climate. Most of the FDI activities in India have now been placed under the automated route of approval from the cumbersome Foreign Investment Promotion Board (FIPB) route. In November 2015, the FDI rules of India has been reformed again by relaxing investment restrictions in fifteen significant sectors of the economy including banking, defense, construction and single-brand retail trading with the intention of easing, rationalizing and simplifying the method of investing in India. More FDI proposals were placed under automatic route rather than government route, to avoid wasting the time and energy of the investors.

**Hypothesis for Study**

**$H_0$1** **Null Hypothesis:** There is no favorable impact of Foreign Direct Investment on economy.

**$H_0$1** **Null Hypothesis:** Foreign Direct Investment do not expands the opportunities of Growth.

**Research Methodology**

This study is principally undertaken with the item to review the connection of Foreign Direct Investment – A Strategic Change in Economy. The information for the study collected for the amount 2011 to 2020. The most of the data as specified has been collected from secondary sources. At the same time world Bank Data base has also been used for data of Foreign Direct Investment and economical impact whereas other data was collected form Economic survey of India. For the aim of research of knowledge, the multiple correlation method and karl's pearsons correlation Method has used. At the same time two regression equations accustomed make a correlation between FDI and Economic activities.

**Results and Analysis**

By using the various data related to Gross Domestic Production, Employment and Foreign Direct Investment, for the period 2011 to 2020, the following Correlation and Regression analysis has been done. The below Table 1 indicates the results of Correlation and Table 2 indicates the results of Regression analysis.

**Table 1**

| Variables | | Economic Growth | FDI |
|---|---|---|---|
| FDI | Correlation | 0.9153 | 0.9536 |
| | Sig.(2-tailed) | 4.1473 | -- |
| | N | 12 | 12 |
| Economic Growth | Correlation | 0.8323 | 09224 |
| | Sig.(2-tailed) | 0.0001 | 0.0003 |
| | N | 12 | 12 |

Table 1 reveals the pearsons coefficient of correlation between FDI and Economic activities in the period of during 2011 to 2020. The low level of significance (0.0001) shows the coefficient Gross Domestic Production variable is very significant. Same because the coefficient of correlation between foreign direct investment and economic process is additionally shows strong correlation i.e. 0.9153 percent during the amount of 2011 to 2020. The significance level of 0.0003 indicates the coefficient of Foreign Direct Investment, variable is additionally highly significant.

**Table 2: Regression Results (Linear Model)**

| Multiple R | R-square | Adjusted R Square | Std. Error if Estimates |
|---|---|---|---|
| 0. 8813 | 0.6988 | 0.7471 | 4.9258 |

Table 2 depicts the regression results of Foreign Direct Investment, and economic Activities. The multivariate analysis shows the accuracy between dependent and independent variables. The results are analysed as if R-Square value is greater than 50%, then the model used is found to be critical, however if the R-Square value is less than 50%, the model is not significant. The Parametric state vale is 0.8813 between FDI and Economic Activities as shown above. This shows that 88.13% change in economic activities due to change in FDI Variable during our study period. The Multiple R Value of .8813 and R-Square value of 0.6988 is above the limit of 60%. It means that FDI (the Variable Factor) highly influences the Economic activities during the Study Period.

**Table 3: Results of ANOVA**

| | Sum of Square | Degree of Freedom | Mean Square | F-Test | P- Value |
|---|---|---|---|---|---|
| Regression | 761.323 | 1 | 711.51 | 25.7656 | 0.0004 |
| Residual | 263.356 | 9 | 26.008 | | |
| **Total** | 1024.679 | 10 | | | |

The above table indicates the variance analysis as between of FDI and Economic activities in India during our study period. The above analysis indicating the connection between variable quantity and variable. As per our analysis the F value is 25.7656 which is greater than the p-value 0.0004. Hence the null hypothesis is rejected.

## Conclusion

Once India had depicted herself collectively of the founder-members of the world Trade Organization (WTO) in 1995, she is left with no much option but to open up her economy to the external possibilities likewise as threats. There's no looking back. Post-independence, India was not open to FDI as much as is today. It took decades for this devastated colony to develop, mature and become competitive and gradually privatize, liberalize and globalize the economy. As attribute is susceptible to be proof against change, such move gave birth to enormous skepticism and apprehension in the minds of the Indians. Fear was looming large that the economy will falter and crash down miserably. But somehow, it didn't happen. We managed to cope up and welcome the change pragmatically. Presently, India is one amongst the foremost wanted investment destinations. Endless and remarkably steady rise in the FDI inflows in India may well be observed in the recent past which is anticipated to prolong further in near future. The government is making consistent efforts to boost the trade relations with foreign investors for attracting more challenges in investments. Whatsoever, one-size cannot fit all. FDI, though believed to be a powerful propeller of growth, isn't equally beneficial across all the sectors of each nation. The impact of FDI varies depending upon its nature and form, its spillover effects, the technology absorption capacity of the particular sector, the standard of human capital of the economy and then on and then forth. Hence, it's of utmost importance to form sector specific impact analysis before preferring the permissible depth and spread of FDI in Indian context, so on make FDI a feeder of the requirements of the Indian populace, and not an impediment towards it.

## References

1. Aswathappa, K. (2010). International Business. (4th, Ed.) New Delhi: Tata McGraw Hill Education private Limited.
2. Banerjee, S. (2013). How Equity Contribution through FDI in Retail might Impact the Growth & Development of Indian Economy. Emerging Issues in Finance Leading Thoughts and Ideas (pp. 106-119). Kolkata: Elegant Publishers
3. Chakraborty, C., & Nunnenkamp, P. (2006). Economic Reforms, Foreign Direct Investment and its Economic Effects in India. The Kiel Institute for the World Economy.
4. Damodar, N. G., Porter, D. C., & Gunasekar, S. (2013). Basic Econometrics. Tata McGrawHill Publications.
5. Gokhale, S., & Sinha, P. K. (2012). FDI in Retail: A Global Perspective. Ahmedabad: Indian Institute of Management.
6. Gupta, R. (2012). FDI in Indian Retail Sector: Analysis of Competition in Indian Agri-food Sector. Bangalore: Christ University

7. Organization for Economic Co-operation and Development. (2002). Foreign Direct Investment for Development: Maximising Benefits, Minimising Costs. OECD.
8. Jampala, R. C., Lakshmi, P., & Dokku, S. R. (2013). FDI Inflows into India in the Post-Reforms Period. In Foreign Direct Investment (FDI) and Global Financial Crisis (pp. 42-58). New Delhi: New Century Publications.
9. Kumar, S. (2013). FDI in Pharmaceutical Sector. Rajya Sabha, Department Related Parliamentary Standing Committee on Commerce. New Delhi: Rajya Sabha Secretariat.
10. Mukherjee, A., Satija, D., Goyal, T. M., Mantrala, M. K., & Zou, S. (2011). Impact of the Retail FDI Policy on Indian Consumers and the Way Forward. ICRIER.
11. Ministry of Finance. (June 2014). Report of the Dr Arvind Mayaram Committee on rationalizing the FDI/ FII Definition. New Delhi: Department of Economic Affairs.
12. Srinivasan, P., P., Kalaivani, M. & Ibrahim, P. (2013). Foreign Direct Investment in SAARC Countries. Foreign Direct Investment (FDI) and Global Financial Crisis (pp. 87-112). New Delhi: New Century Publications.
13. Ramaiah, P.S. (2013). Role of FDI in Generation of Income and Employment. New Delhi: Global Research Publications.