

EFFECT OF FDI INFLOW ON INDIAN ECONOMY

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ABSTRACT

Economic liberalization started in India in the 1991 and since then, FDI has gradually increased in the country. As a finding study shows that there is a significant impact of all these 3 variable on FDI inflow. Make in India and more limits in FDI in various sectors attract foreign investors to invest in the India and since many years they are grabbing the opportunities having with us. This research has the objective of trend and impact analysis of FDI inflow with the various variables like inflation, GDP and Foreign exchange rate. By using secondary data and simple linear regression model hypothesis are tested.

Keywords: Economic Growth, FDI, Investment, Trade, GDP, Exchange Rate, Inflation.

Introduction

- **FDI**

“FDI is an investment made by a firm or individual in a country into business interests situated in another country.”

FDI is the process whereby residents of one country (the home country) acquire ownership of assets for the purpose of controlling the production, distribution and other activities of a firm in another country (the host country).

FDI has many benefits like introduction of new technology, innovative goods, and expansion of new markets, opportunities of employment and initiation of new skills etc., which throw back in the increment of income of any nation.

- **FDI Route**

- **Automatic Route:** The foreign entity does not require the prior consent of the government or the RBI.
- **Government route:** The foreign entity has to take the acceptance of the government.

- **FDI in India**

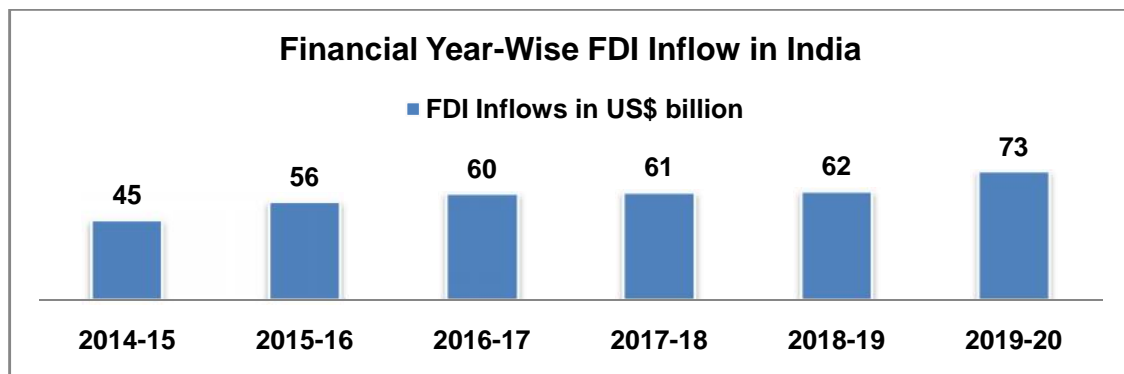


Chart 1

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Foreign companies put in in India to take benefit of comparatively lesser wages, exceptional investment advantages like tax exemptions, etc. For a countryside where foreign investment is being made, it also means attaining technical know-how and making employ.

Economic liberalization started in India following the 1991 economic crisis and since then FDI has steadily grow in India, which later generated more than a crore (10 million) jobs.

According to the Financial Times, in 2015 India overtook China and the United States as the pinnacle position for the Foreign Direct Investment. In first half of the 2015, India achieved investment of \$31 billion compared to \$28 billion and \$27 billion of China and the US correspondingly.

According to the World Investment Report 2020 by the UNCTAD, India was the 9th largest receiver of FDI in 2019. The Government has taken many lead in current years such as comforting FDI norms covering sectors such as defenses, power exchanges, PSU oil refineries, stock exchanges and telecom among others. The investment climate in India has superior extremely since 1991 when the government reveals the economy and commenced the LPG strategies. Many sectors have surfaced with for foreign investment partially or wholly from the time when the economic liberalization of the nation. In 2019, India was amongst the peak ten receivers of FDI, totaling \$49 billion inflows, as indicated by a UN report. This is a 16% enhance from 2018.

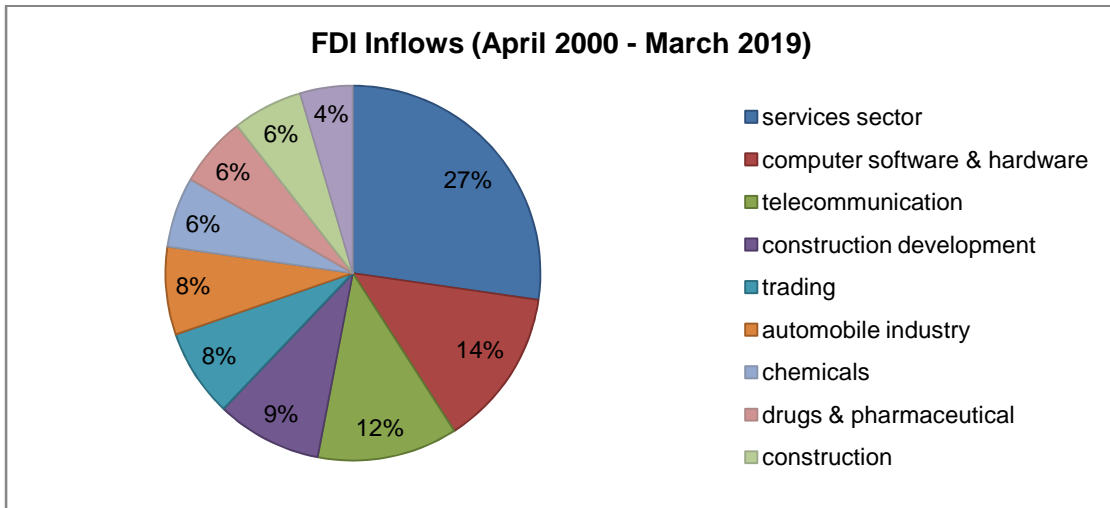


Chart 2

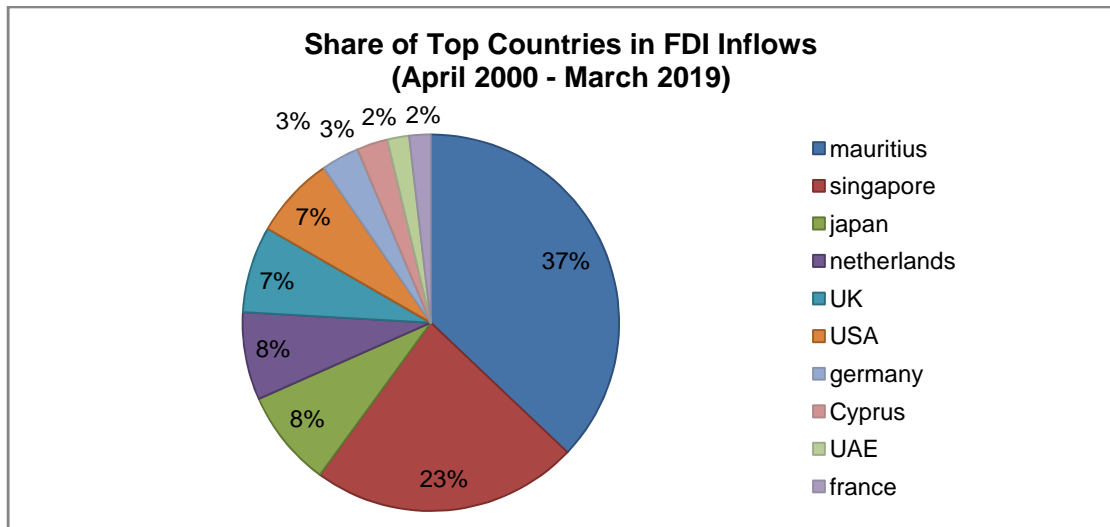


Chart 3

Problem Statement

Foreign Direct Investment (FDI) the most important driver of growth and important source of non-debt financial resources for country for economic development. Besides this it is a means of achieving technical know-how and a source for employment generation.

Objective of the Study

- To analyze the trends in FDI inflows
- To study the effect of FDI on the growth indicators of Indian economy (is there any effect of inflows on the economy or not)
- To study the nature of relation linking the independent and dependent variables of the study (positive or negative)

Hypothesis

H₀: there is no significant impact of FDI on inflation.

H₁: there is significant impact of FDI on inflation.

H₀: there is no significant impact of FDI on GDP.

H₁: there is significant impact of FDI on GDP.

H₀: there is no significant impact of FDI on foreign exchange rate.

H₁: there is significant impact of FDI on foreign exchange rate.

Literature Review

- **An Analytical Study of FDI in India (2000-2015) Abhishek Vijaykumar Vyas** - FDI is an imperative stimulus for the economic enlargement of India. Service sector is first and banking and insurance sector is second segment which pick the growth in second decade of reforms. Mauritius and Singapore is the 2 top countries which has maximum FDI in India. FDI acting an vital position in the development of infrastructure because many countries invest in the infrastructure sector and service and banking finance sectors.
- **An Overview Of Foreign Direct Investment in INDIA, Syed Azhar & K.N.Marimuthu** - This paper focuses on hypothetical aspects of FDI in India for the period of the last ten years, determinants and require of FDI in Indian scenario. It has moderately performed healthy, and then the average growth rate of world GDP. India is probable to be among the most capable investor-home countries in 2010-12 as well as the third highest economy for FDI in 2010-12". India has all the variables such as well infrastructure, prospective markets, plentiful labour, availability of natural resources, and at last the economic and trades policies which has been supporting FDI.
- **A Study of Fdi and Its Impact on Indian Economy, Rakesh Ramswarup Bajpai** - It is institute that FDI as a strategic constituent of investment is wanted by India for its continued economic growth and development. FDI is necessary for new job creation, opening out of existing manufacturing industries and development of the new one. Indeed, it is also needed in the healthcare, education, R&D, infrastructure, retailing and in long- term financial projects.
- **A critical analysis of foreign direct investment inflows in India, R.B. Teli** - It is establish that FDI inflows in India demonstrate positive trend over the time in study. FDI greater than before due to acceptance of more broadminded foreign policy and sequence of measures are undertaken by GOI. While, studying sectoral standpoint, it is institute that service sector tops in attracting utmost FDI in equity inflows, followed through manufacturing sector.
- **Foreign Direct Investment: Impact on Indian Economy, Bhavya Malhotra** - India's Foreign Direct Investment policy has been gradually liberalised to create the market more investor welcoming. The outcomes have been encouraging. These days, the country is again and again ranked among the zenith three worldwide investment destinations by all international bodies, including the World Bank, as said by a United Nations (UN) report. FDI inflow supplements domestic capital, as well as tools and skills of presented companies.

Research Methodology

- **Research Design:** Qualitative Research
- **Sample of the Study:** Quota Sampling, In this study, from different indicators of economy main **3 indicators** - GDP, inflation rate, foreign exchange rate are selected to know the effect on them.

- **Data Collection Method:** For the purpose of study secondary data and reports are been used, which are collected from published reports of nations premier economical and commercial institutions, magazines, RBI yearly statement, DIPP information and notifications, study articles and fiscal institutions websites.
- **Statistical Techniques and Tools:** Simple linear regression model

Data Analysis and Interpretation

Table 1

Year	FDI (US\$) (Billion)	Inflation (%)	GDP (US\$) (Billion)	Foreign Exchange Rate
2019	50.61	7.66	2,875	69.1713
2018	42.12	4.86	2,713.17	65.0441
2017	39.97	2.49	2,652.75	64.8386
2016	44.46	4.94	2,294.80	66.3329
2015	44.01	5.87	2,103.59	62.5908
2014	34.58	6.35	2,039.13	60.0998
2013	28.15	10.91	1,856.72	54.2323
2012	24	9.31	1,827.64	51.16
2011	36.5	8.86	1,823.05	44.645
2010	27.4	11.99	1,675.62	45.135

Impact of FDI on inflation

Hypothesis:

H_0 : there is no significant impact of FDI on inflation

H_1 : there is significant impact of FDI on inflation

Summary Output

Regression Statistics	
Multiple R	0.655802
R Square	0.430076
Adjusted R Square	0.358835
Standard Error	6.910443
Observations	10

ANNOVA

	Df	SS	MS	F	Significance F
Regression	1	288.2902	288.2902	6.0369585	0.039502
Residual	8	382.0338	47.75422		
Total	9	670.324			

Interpretation

P value is $0.0395 < 0.05$ and r^2 is 0.430076 it means the impact on inflation is 43.01% of FDI

H_0 is rejected

There is significant impact of FDI on inflation.

Impact of FDI on GDP

Hypothesis :

H_0 : there is no significant impact of FDI on GDP

H_1 : there is significant impact of FDI on GDP

Summary output

Regression Statistics	
Multiple R	0.805522
R Square	0.648866
Adjusted R Square	0.604974
Standard Error	5.424178
Observations	10

ANNOVA

	Df	SS	MS	F	Significance F
Regression	1	434.9503	434.9503	14.78331	0.004913
Residual	8	235.3737	29.42171		
Total	9	670.324			

Interpretation

P value is $0.0049 < 0.05$ and r^2 is 0.648866 it means the impact on GDP is 64.88 % of FDI.

H_0 is rejected

There is significant impact of FDI on GDP.

Impact of FDI on Foreign Exchange Rate

Hypothesis:

H_0 : there is no significant impact of FDI on foreign exchange rate

H_1 : there is significant impact of FDI on foreign exchange rate

Summary Output

Regression Statistics	
Multiple R	0.791086
R Square	0.625818
Adjusted R Square	0.579045
Standard Error	5.599368
Observations	10

ANNOVA

	Df	SS	MS	F	Significance F
Regression	1	419.5006	419.5006	13.37995	0.006421
Residual	8	250.8234	31.35292		
Total	9	670.324			

Interpretation

P value is $0.0064 < 0.05$ and r^2 is 0.625818 it means the impact on foreign exchange rate is 62.58% of FDI.

H_0 is rejected

There is significant impact of FDI on foreign exchange rate.

Limitation of the Study

- This research is based on the secondary data.
- The study is limited for 10 years, only last 10 years data is used.
- The analysis may not show the correct situation, the effect of other variables on the indicator may show the wrong correlation with FDI.
- This study results are limited to the 3 indicators and only for 10 years.

Findings

Foreign Direct Investment is a foremost driver of economic growth and an essential basis of non-debt finance intended for the economic development of India. A robust and easily accessible FDI regime, thus, should be ensured. There is strong relation between FDI and different economic indicators. After analyzing the statistical results it can be concluded that GDP, foreign exchange and inflation rate is having strong impact of FDI inflows. Though there are other factors too determining the value of the indicators so, we cannot ignore them. Economic growth in the post-pandemic stage and India's huge market shall go on with to catch the attention of market-seeking investments to the nation.

Conclusion

India is at this time liberalizing its foreign direct investment policy to construct the marketplace more investor friendly. The consequences have been encouraging. These days, the country is constantly ranked among top universal destinations by all intercontinental bodies, according to latest reports. The new government has allowed FDI beyond 49% up to 100% through the government approval route, inside defense, ensuing in access to recent technology in the nation. In short currently the majority of the sectors are in automatic approval route making India one of the most open economies in the globe designed for FDI. All this expected to benefit the economy.

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