Global Journal of Enterprise Information System

DOI: 10.18311/gjeis/2018/21376

FDI in India - The Growth Trajectory

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Abstract

Foreign Direct Investment *(FDI)* has been viewed as a power affecting economic growth directly and indirectly during the past few decades. Our Prime Minister has also underlined this fact through his famous quote, "FDI for me is First Develop India and then Foreign Direct Investment". It is not only a critical driver of economic growth but also a chief source of owned financial resource for India. Since 1991, the regulatory environment for foreign investment has unfailingly been eased by India, catapulting it into the spot of one of the fastest-growing economies in the world. It has been ranked (9th in terms of FDI inflows for 2016 by UNCTAD) among the top attractive destinations for inward bound investments in the world.

Keywords: Economy, FDI, Growth, India

Paper Code (DOI-USA): 21376**; Originality Test Ratio:** 22%**; Submission Online:** 30-May-2018**; Manuscript Acknowledged:** 15-June-2018**; Originality Check (ithenticate):** 01-July-2018**; Peer Reviewers Comment:** 06-Aug-2018**; Double Blind Reviewers Remark:** 30-Sep-2018**; Author Revert:** 03-Nov-2018**; Camera-Ready-Copy:** 02-Jan-2019**; Editorial Board Citation:** 17-Jan-2019**; Published Online First:** 01-Feb-2019**.**

Editorial Board Excerpt: Editorial board are in appropriate path liable for the preeminence of the article and careful for identifying significant 'noteworthy topics', sourcing high quality manuscripts, handling schedule paperwork, and organizing the flow of manuscripts (*i.e. from author to referees and back in a camera ready shape*). The two most significance mentioning attributes of any article suitable for GjEiS are (1) having a wide-ranging acquaintance of the subject area and (2) being organized. Depending on the size of the piece of writing and its argument strength, the number of editors can range from one or two people to many more and sometimes to bring articulateness the blind reviewer process enabled to bequeath with comprehensive justice to time-honored editorial. Initially at the Time of Submission (ToS) submitted paper had a 22% plagiarism which is an accepted percentage for publication as some of the contents are the author's self acknowledge work and copyright free material. The editorial board is of an observation that document had a successive close watch by the blind reviewer's which at a later stages had been rectified and amended by a author (Nidhi) in various phases as and when necessary to do so. The reviewer's had in a first round habitual in a miniature span restructured by an author. The comments related to this document are extremely perceptible related estimating the sacrifice ratio for Foreign Direct Investment both subject-wise and research judicious by the reviewers during evaluation and further at blind review process too. All the comments had been shared at a variety of dates by the authors' in due course of occasion and same had been integrated by the author in computation. By and large all the editorial and reviewer's comments had been built-in in a paper at the end and further the script had been mark down and decisive under **"Research Thought"** group as its highlights and draw attention to the work in relation to Foreign Direct Investment in an Indian perspective which is a Research Thought.

1. Introduction

Foreign based companies invest in India to take benefit of relatively lower wages and tax exemptions. For a country where foreign investments are being made, it also means achieving technical know-how and generating employment. The Government of the country, with intent to attract and promote FDI, has implemented a policy structure on FDI which is transparent, predictable and easily comprehensible. The favourable policy regime of Indian government and robust business environment have ensured that foreign capital keeps flowing into the country. Over the last few years the government has taken many initiatives like relaxing FDI norms across sectors such as defence, PSU oil refineries, telecom, power exchanges, and stock market, among others.

In the beginning of the year India has announced sweeping relaxations in FDI rules in single-brand retail and other areas besides allowing overseas carriers to acquire as much as 49% of Air India to help speed up its divestment. The moves came ahead of Prime Minister Narendra Modi's trip to the World Economic Forum in Davos, where he is expected to showcase the country's investment potential.

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2. Conceptual Framework

"FDI is fund flow between the countries in the form of inflow or outflow by which one can able to gain some benefit from their investment whereas another can exploit the opportunity to enhance the productivity and find out better position through its performance." The effectiveness of it depends upon the investor's perception, if long term investment is made then it makes a positive contribution towards economy, on the other hand if the investment is for short stinted only for the drive of making profit then it may be of little significance. The FDI can take any course or form to enter into any country. There are three principal forms of FDI in India they are "joint ventures, acquisition of assets in a country and Greenfield ventures".

In the words of 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 to have an effective voice in the management of enterprise".

The investors coming directly to India may acquire the 10% or more voting rights of any entity or enterprise through any of below methods:

- "By incorporating the wholly owned subsidiary or company.
- By acquiring the shares of an associated enterprise.
- Through the merger or an acquisition of unrelated enterprise.
- By participating in an equity joint venture with another investor".

3. Review of Literature

"Impact of Foreign Capital on Indian Economy"- Kurian K.M.

The author has looked into role of transnational investment in developing economies from multiple viewpoints. In some cases, the need for it is felt for priming of the pump', to enable under-developed economies to break away from the 'vicious circle of poverty', i.e. low incomes; poor savings; in adequate investment and therefore, stagnation and low incomes. In others, a TNC is believed to be a carrier of modern production technologies, rational and scientific industrial management culture and improved forms of organisation; an innovator and a risk taker in exploration and discovery of the known and unknown natural wealth in under-developed regions; a means to reach the world markets to augment the much-needed foreign exchange by poor economies; and/or an institution to seek co-operation with the developed countries in harnessing the comparative advantages offered by over-populated countries of the world for mutual advantage.1In India the role of transnational investment has been significant and expanding. Transnational capital has been generally viewed in the traditional perspective of the 'two-gap-approach'; wherein it is regarded as a means to fill the foreign exchange and technology gaps.

"Inflows of FDI in India"- Gulshan Akhtar (Research Scholar)

The scholar has underlined with data the fact that FDI has played a noteworthy role in the growth and development of Indian economy. "Our GDP has grown four-fold since the year 1991. FDI play multidimensional role in the overall development. It may generate benefits through bringing non-debt creating foreign capital resources, technology upgradation, skill enhancement, new employment, spillovers and allocative efficiency effects".

"An analytical study of FDI in India"- Abhishek Vijaykumar Vyas

The author has shown that, "how in the process of economic development foreign capital helps to cover the domestic saving constraint and provide access to the superior technology that promote efficiency and productivity of the existing production capacity and generate new production opportunity. Foreign investment plays a significant role in development of any economy as like India. Many countries provide many incentives for attracting the FDI. Need of FDI depends on saving and investment rate in any country. Foreign Direct investment acts as a bridge to fulfill the gap between investment and saving."

"FDI and telecommunications sector in India"
- Mohd.AzherParvez

The present paper discusses on the role of FDI in the development of telecom sector. Over the past decade the Telecom sector has experienced rapid growth owing to regulatory liberalization, however, the sector has been in turbulent phase started from 2014–2015 year, marked by legality of Long-Term Evolution (LTE), roaming agreements, one time Spectrum cost, reframing of allotted spectrum in the 2300 + MHz band, etc.

"A study on effect of India's foreign direct investment inflows and its economic growth" - M. Krithika

"Globalization and liberalisation brings lots of new innovative products to the world, Foreign Direct Investment is the one among this, also there are number of different forms of FDI is available currently. Recently, Government of India allowed FDI in different sectors of Indian economy. But several opposition parties are making it a political issue in parliament on these policy decisions and amendments" as stated by Dr. Shahul Hameedu.

"Role of FDI in India: An Analytical Study"- Dr. Jasbir Singh

International Economic Amalgamation plays a dynamic role in the development of any country. Foreign Direct Investment is one and the most important mechanism of attracting International Economic Amalgamation in any economy. It serves as a link between investment and saving. The paper highlights, "how many developing countries like India are facing the deficit of savings. This problem can be solved with the help of Foreign Direct Investment. Foreign investment helps in reducing the defect of BOP".

"Foreign Direct Investment: Impact on Indian Economy"- Bhavya Malhotra

The author brings out the fact that "with the initiation of globalization, developing countries, particularly those in Asia, have been witnessing a immense surge of FDI inflows during the past two decades. Even though India has been a latecomer to the FDI scene compared to other East Asian countries, its considerable market potential and a liberalized policy regime has sustained its attraction as a favourable destination for foreign investors. This research paper aims to examine the impact of FDI on the Indian economy, particularly after two decades of economic reforms, and analyzes the challenges to position itself favourably in the global competition for FDI".

"FDI in India"- Shalini Agarwal

Foreign direct investment plays an important role in the economic development of the country. It helps in transferring of financial resources, technology and innovative and improved management techniques along with raising productivity. An Indian company may receive Foreign Direct Investment either through automatic route or government route.

"An Overview of FDI in India"- Marimuthu K.N.

"This paper attempted to make an analysis of FDI in India and its impact on growth. It also focuses on the determinants and needs of FDI, year-wise analysis, sectoral analysis and sources of FDI and reasons. One of the economic aspects of globalization is the fact that increasing investments in the form of foreign direct investments. In the recent times due to the global recession most of the countries have not been able to pull investments".

"Foreign Direct Investment and Economic Growth in India" - R. Anitha

The paper brings out the important role of FDI in the development of the nation. It is more so in case of underdeveloped and developing countries. "A typical characteristic of these developing and underdeveloped economies is the fact that these economies do not have the needed level of savings and income in order to meet the required level of investment needed to sustain the growth of the economy".

"A study on effect of India's foreign direct investment inflows and its economic growth"- M. Krithika

Investment in a foreign country where the investor retains control over the investment is the essence of FDI. It usually takes the form of starting a subsidiary or acquiring a stake in an existing concern or starting a joint venture in a foreign country. "FDI implies that the investor exerts a significant degree of influence on the management of the enterprise resident in the other economy".

4. Research Methodology

The present work is a conceptual and detailed study of movement of FDI and FIIs in India and how the position of the economy has improved after the much talked economic reforms. The study is founded on secondary data. Various sources i.e. World Investment Reports, Asian Development Bank's Reports, various Bulletins of Reserve bank of India publications from ministry of commerce, Government of India and websites of eminent bodies like RBI, UNCTAD, World Bank. IMF, EXIM Bank etc., have been used for assimilating the data. The relevant data have been collected for the period of 1991 to 2017 in the form of time series.

5. Objectives

- To explore the relationship existing between inflow of FDI and GDP growth rates in defined period.
- To gauge the Impact of FDI on the Economic Development of India.

6. Data Analysis

6.1 Analysis of FDI Inflow

Inflow of FDI in India	
Year	**US Million ($)**
2000–01	2463
2001–02	4065
2002–03	2705
2003–04	2188
2004–05	3219
2005–06	5540
2006–07	12492
2007–08	24575
2008–09	31369
2009–10	25834
2010–11	21383
2011–12	35121
2012–13	22423
2013–14	24299
2014–15	30931
2015–16	40001
2016–17	43224

Years	FDI Inflows (X) in Million Dollars	GDP (Y) in Million Dollars
2011–2012	35121	182764
2012–2013	22423	185672
2013–2014	24299	203539
2014–2015	30931	208987
2015–2016	40001	226379
2016–2017	43224	243901

6.2 Regression

Variables Entered/Removed[a]			
Model	Variables Entered	Variables Removed	Method
1	FDI[b]	.	Enter

[a] Dependent Variable: GDP; [b] All requested variables entered

Model Summary[b]				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.727[a]	.528	.410	18113.33726

[a] Predictors: (Constant), FDI; [b] Dependent Variable: GDP

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1.	Regression	1468815705.053	1	1468815705.053	4.477	.102b
	Residual	1312371946.281	4	328092986.570		
	Total	**2781187651.333**	**5**			

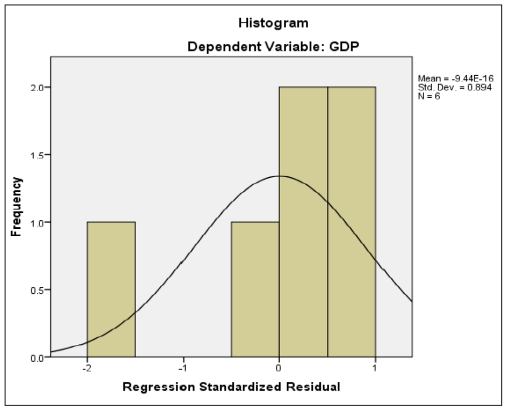
[a] Dependent Variable: GDP; [b] Predictors: (Constant), FDI

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1.	(Constant)	141547.800	32514.269		4.353	.012
	FDI	2.051	.969	.727	2.116	.102

Coefficients[a]			
Model		95.0% Confidence Interval for B	
		Lower Bound	Upper Bound
1.	(Constant)	51273.718	231821.883
	FDI	–.640	4.742

[a] Dependent Variable: GDP

Residuals Statistics[a]					
	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	187532.9375	230191.6719	208540.3333	17139.51986	6
Residual	−30810.02734	13709.32129	.00000	16201.06136	6
Std. Predicted Value	−1.226	1.263	.000	1.000	6
Std. Residual	−1.701	.757	.000	.894	6



7. Interpretation

For calculating regression, we have taken FDI as independent variable and GDP as dependent variable. A Regression "r" of 0.727 signifies that about 72% variation in our dependent variable, i.e., GDP of India is caused by change in independent variable, i.e., FDI. Further "r^2" or square of value of 0.528 denotes that about 53% total change in GDP is explained by change in FDI.

In Anova Table, sig value (significance) of 0.102 denotes that the data fits well at 5% level of significance, i.e., it shows that the study stands 95% true.

8. Correlation

Descriptive Statistics			
	Mean	Std. Deviation	N
FDI	32666.5000	8357.47062	6
GDP	208540.3333	23584.68847	6

Correlations			
		FDI	GDP
FDI	Pearson Correlation	1	0.727
	Sig. (2-tailed)		0.102
	Sum of Squares and Cross-products	349236575.500	716215168.000
	Covariance	69847315.100	143243033.600
	N	6	6

Correlations			
		FDI	GDP
GDP	Pearson Correlation	0.768	1
	Sig. (2-tailed)	0.102	
	Sum of Squares and Cross-products	716215168.000	2781187651.333
	Covariance	143243033.600	556237530.267
	N	6	6

9. Interpretation

For calculating Karl Pearson's correlation, we have taken FDI as independent variable and GDP as dependent variable. Karl Pearson's correlation coefficient of 0.768 implies that both the variables move in one direction, i.e., as FDI increases GDP follows. However, lag between the moments is beyond the scope of presentation. There exists high degree of correlation between the independent and dependent variable. In 77% of cases, the GDP moves in the same direction as of FDI. So hereby we conclude, with the help of above calculation that there is a positive correlation between the dependent and the independent variable.

10. Current Outlook of FDI in India

Apart from being a catalyst for economic growth and development, FDI is a major source of non debt financing that enables foreign entities an opportunity to control and own Indian companies. Ever since the Indian economy has globalised and opened itself to the world, many big multinational corporations have outsourced their operations to India so as to avail cheaper costs of productions, lower wages for skilled labour and certain special privileges such as tax exemptions. The country in return acquires the technical knowledge and better technology for efficient production thus creating employment.

11. Market Size

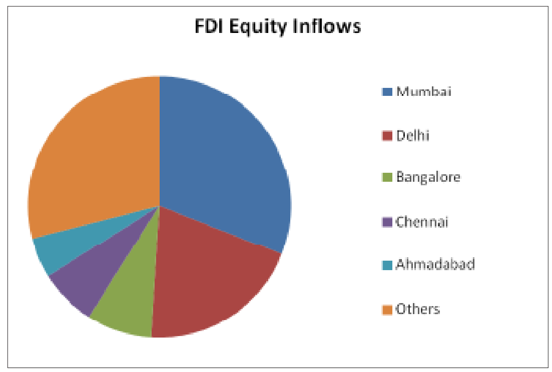
According to the reports given by Department of Industrial Policy and Promotion in 2017, the FDI in India stood at $33.75 billion for the period of 6 months (April – September) indicating that the government's efforts to attract foreign capital through relaxation in FDI norms and improvement in ease of doing business is yielding results. During this period telecommunications industry attracted the highest FDI of $6.08 billion in terms of equity inflow which was followed by Information Technology where an investment of $3.05 billion was made.

Some recent significant announcements for foreign direct investments in the previous year (2017–18) are as follows:

- 15 Japanese companies have signed MOUs showing an interest to invest in the state of Gujarat.
- Engie SA, a france based energy firm and Abraaj group from Dubai have entered into a partnership for developing wind power platform in the country.
- Walmart, the largest international retailer is planning to establish thirty brand new stores in India over the next 03 years through its Indian subsidiary, Walmart India Ltd.
- Amazon has further invested about "$1 billion in its Indian subsidiary so far making its total investment to $2.7 billion".
- Tamasek, a state owned holding company owned by the government of Singapore will make a purchase of roughly 1000 crore in Manipal hospitals, a private health care network running a chain of hospitals in India.
- "International Finance Corporation (IFC) has planned to invest $6 billion in several sustainable and renewable energy programmes in India".
- SAIC Motor Corporation has set up a completely owned car engineering facility in India and plans to begin production by 2019.
- The government's make in India programme has been successful in attracting investments and is evident from the inflow of $1.54 billion (for the period of 2014–2017) since BJP resumed control.
- CleanMax Solar, a rooftop solar development firm based in Mumbai has received a $100 million investment from "Warburg Pincus (a private equity firm in New York) which will provide opportunities to globalise its products".
- "The FDI proposals from Oppo Mobiles India, Chumbak Designs, Daniel Wellington AB and other corporate have been approved by the Government of India".

List of Top 5 FDI receiving States of India in terms of Equity Inflows.

State	FDI Equity Inflows (2016–17)	Percentage of Total Inflows
Mumbai	1,31,980	31%
Delhi	39,482	20%
Bangalore	14,830	8%
Chennai	14,300	7%
Ahmadabad	12,950	5%
Others	1,23,465	29%



We can observe from the above figure that Mumbai attracts the maximum FDI in terms of Equity Inflow followed by Delhi. The investment opportunities are diverse and attractive in these two cities being the financial and political capital of the country.

12. Government Attitude

The Bhartiya Janta Party assumed control of the government in November 2014, electing Mr. Narendra Modi as the Prime minister of the country. Since then government has laid heavy emphasis on industrialization and development of MSME sector. The government has launched several policies and schemes to boost the morale of small scale producers and entrepreneurs, as it believes that self dependence for producing a product rather than importing the same from another country could be a key factor in economic development and increasing the GDP of the country. Moreover the government has laid heavy emphasis on increasing exports with the objective to offset infrastructural inefficiencies and associated costs involved. Apart from this, "Start Up India" is an initiative taken by the government to promote the entrepreneurial spirit among the youth to generate sustainable economic growth and large scale employment opportunities.

However Nirmala Sitharaman, the commerce and industry minister proclaimed that, “the Government had decided not to extend the deadline of April 1 for expiry of all existing Bilateral Investment Promotion and Protection Agreements (BIPA) or the Bilateral Investment Treaty (BIT). This essentially means investments from countries that have failed to sign a revised BIPA with India, based on the new text that was approved by the Cabinet in December 2015, will not be legally protected. This will dent India’s image of being a preferred investment destination.”

Leading countries of the world like U.S have raised questions on some provisions of this new Bilateral Investment Treaty. Some provisions in the new treaty also bar foreign investors from approaching international arbitration.

Instead it has made it obligatory to first reach out to the domestic courts in case of disputes. The government has removed the “most favoured nation” clause which is a vital aspect of any BIT.

13. Recent Initiatives Taken by Government

- “Strengthening single window clearance system for faster approval of proposals in order to improve the efficiency of transactions in India”.
- Ease of approval mechanism for FDI by removing the approval of Department of Revenue that was required earlier and mandating clearance of proposal within 10 weeks after receiving applications.
- “Department of Industrial Policy and Promotion (DIPP) approved nine FDIs worth INR. 5000 Crore”.
- Infrastructure Development in north eastern states undertaken by Japan to develop strategic infrastructure projects.
- “Foreign Direct Investment in Defence sector under automatic route to be raised from 49% to 51% in order to boost Make in India initiative and generate employment”.
- “Central Board of Direct Taxes has exempted income generated from Employee Stock Options, FDI and certain other transactions from Long Term Capital Gains”.
- “Allowing 100 percent FDI in Cash and ATM management companies”.
- The GOI is planning to scrap the Foreign Investment Promotion Board (FIPB) so as to improve the ease of doing business.

14. Conclusion

There is no doubt that FDI continues to play a noteworthy role in the Indian Economy. From the above calculations, the scrutiny shows that there exists a affirmative relationship between FDI and economic growth. It is evident from the fact that the relationship is found positive and these findings have important implication in policy making. These findings have significant policy implication where the government has to consider the prominence of FDI contribution to the growth of the economy as a whole.

Economic Development of any economy can be achieved by encouraging and attracting increased Direct Investment from foreign bodies which can help to create better employment opportunities in the country. Apart from this advanced technology which comes through process and technology sharing in production will train more workforce therefore it will improve the productivity and the level of contentment and demand from the customers. But we should also consider the negative effect on domestic producer because they are trailing behind in terms of market share, since the foreign investor tends to acquire the controlling position in the market. This incidentally leads to the domestic producer fronting difficulties of survival in the marketplace as in the long run foreign companies usually attain economies of scale with the improved process and technology. India is among the one of the leading countries that attracts the highest FDI inflows and has become an emerging market for multinational corporations. According to a report published by World Bank, FDI in India has an expected growth quotient of 8.8% in FY 2018–2019 and will improve India’s GDP in the future. The Growth Trajectory is expected to continue its uphill climb.

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Annexure-I

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Citation:
Nidhi Pant
"FDI in India - The Growth Trajectory",
Global Journal of Enterprise Information System. Volume-10, Issue-2, April-June, 2018. (http://informaticsjournals.com/index.php/gjeis)
DOI: 10.18311/gjeis/2018/21376
Conflict of Interest:
Author of a Paper had no conflict neither financially nor academically.