Original Research Paper

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Economics

THE IMPACT OF FOREIGN DIRECT INVESTMENT ON THE GROWTH OF INDUSTRIES IN INDIA DURING LAST TWO DECADES

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KEYWORDS :

Nowadays Foreign Direct Investment plays significant role in development of industrial as well as economic growth of fast developing economy of India. Industrialization or perish is the development mantra Sir M Visvesvaraya gave to India. But the path to industrialization in India is not an easy path. It suffers from various limitations, including that of finance. The growth of the Corporate Industrial sector, apart from its own savings depends on the inflow of financial resources into it. The importance of financial sector to industrial growth as well as economic growth is depending on foreign capital. Foreign investment can be classified as foreign direct investment (FDI) and foreign portfolio investment. International investment in financial assets such as shares, debentures and bonds, is called portfolio investment. Foreign investment in real assets is called foreign direct investment (FDI). Multinational corporations (MNC s) are the chief source of FDI in real assets. Real assets consist of physical things such as factories, land, capital goods, infrastructure and inventories. Multinational may collaborate in joint ventures with host country enterprises or may have fully owned subsidiaries in host countries. FDI is welcomed as it brings in capital technology, technical knowhow and create more employment etc.

FDI refers to the flow of capital between countries. According to the United Nations Conference for Trade and Development (UNCTAD) , FDI is '*investment made to acquire lasting interest in enterprises operating outside of the economy of the investor*.' India is one of the fastest growing economies of the world. Indian economic scenario has changed significantly since economic reforms in 1991 and subsequent strengthening of the reforms through second generation reforms. The economic reforms reversed the trend in favor of private investment. Plan outlay to public industries was reduced in five year plan. Disinvestment was introduced in public sector industries. There were series of economic reforms laying the red carpet for private investment and private foreign investment. Lots of sops were offered to encourage the private investment in industrial sector. FDI is a major driver of economic growth as it enhances productivity by bringing capital, skills and technology to the host country. The Government is playing a proactive role in investment promotion through a liberal FDI policy. During 2019-20 total FDI Equity inflows were 2,58,009 crore. Service sector contributing highest production to GDP its annual growth rate was 7.13 percent, the highest amount rupees 462,114 crore FDI invested in the Service Sector which include Banking, Insurance, Non Fin/Business, Outsourcing, and other. The second place of FDI attractions sector has computer software and hardware after liberalization we are exporting and gaining more foreign revenue it attracted 266,385 crore. nearly 80 per cent have come mainly from Singapore, Mauritius, Netherlands, USA and Japan. India having become the fifth largest economy in the world in 2019 and aspiring to be the third largest by 2025, to achieve the objective of becoming a 500 lakh crore economy by 2025, a strong investment climate is critical. The Economic Survey of 2019-20 laid out the role of investment, especially private investment, in driving demand, creating capacity, increasing labor productivity, introducing new technology, allowing creative destruction, and generating employment. Undoubtedly, investment assumes primacy in catalyzing the economy into a virtuous cycle. 10.2 In recent times, India has taken several initiatives to foster investment, be it relaxing FDI norms, cutting corporate tax rates, containing inflation, accelerating infrastructure creation, improving ease of doing business, or reforming taxation.

In India the FDI is fast growing, the industrial sector has also relatively grown significantly. In this context, it raises many researchable questions.

1) Is FDI, the engine of industrial growth and economic growth or otherwise?
2) If FDI is influencing the industrial growth, to what extent is it influencing?
3) In case if, FDI is not influencing the industrial growth, why is it, not influencing?
4) What are the factors that are hindering FDI from boosting industrial growth?

Hence in order to test the FDI impact on the industrial growth the present study is undertaken by the researcher. There have been many articles on the issue published in various journals, books and news papers. But there is no comprehensive in depth study of the impact of FDI on industrial growth in post reform period. To fill this research gap, the present study was undertaken by the researcher.

Objectives

The important objectives of the study are;

1. To review the FDI scenario in the country during the last two decades
2. To assess the influence of FDI on industrial and economic growth
3. To analyze the impact of FDI on growth industries in India

Hypotheses

1. H_1 = FDI growth is not correlated with industrial growth in India
   H_0= FDI growth is correlated with industrial growth in India

Methodology

This study is based on the secondary sources of data and review the historical as well as current information. The data is collected from RBI's Annual reports of various years, RBI's, Hand Book of Statistics of Indian Economy of various years and Government of India's Economic Survey of relevant years, Journals and Articles. In order to analyze the data, apart from regular tabular analysis, percentages, averages. Standard statistical tools like simple and multiple regression analysis, ANOVAs, is used to derive analytical inference with respect to the objectives of the study. Two models are fitted to know the impact of FDI on growth of industry and economy. The 20 years data from 2000-2020 has been considered for the analysis.

1) The first model is fitted to know whether there is impact of FDI on growth of industries. In this model industrial production is dependent and FDI are considered as independent variables. The independent variables are used as proxy for FDI. This Model presumes that Industrial production depends upon FDI.

The model is written as, IP= f (FDI)

Tools of Analysis

The Compound Growth Rate (CGR) with regard to growth/efficiency has been estimated on the basis of the semi-log or exponential function Log Y=a+Bt.Karl Pearson's correlation coefficient (r) was used to examine the degree of linear relationship between the selected variables. The linear correlation coefficient (r) measures the strength and the direction of linear relationship between the variables. The mathematical formula for computing 'r' is multiple regression analysis was exercised to study the individual influence of various variables on the dependent variable. The linear equation used for study can be stated as follows.

Limitations of the Study

The present study has only a macroeconomic approach. The study takes into account a period of 20 years from 2000-01 to 2019-20 up to December. This study makes use of the secondary data and all the limitations of secondary data are also applicable to this study.

FDI inflows to India (in Crore)
Table No.1

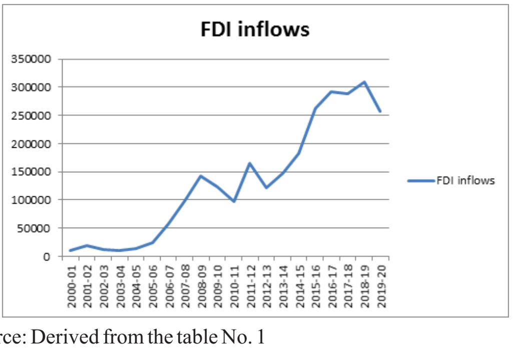
Years	FDI inflows
2000-01	10733
2001-02	18654
2002-03	12871
2003-04	10064
2004-05	14653
2005-06	24584
2006-07	56390
2007-08	98642
2008-09	142829
2009-10	123120
2010-11	97320
2011-12	165146
2012-13	121907
2013-14	147518
2014-15	181682
2015-16	262322
2016-17	291696
2017-18	288889
2018-19	309867
2019-20	258009

Source: RBI's Bulletin for February, 2019

The above table shown Total FDI inflows to India during last two decades. During 2000-01 to 2019-20 December 2019 there is fluctuation in FDI inflows to India. after 1991 financial liberalization FDI investment was recorded 10733 crore 2000-01 and it rapidly increase to 12871 crore 2002-03.but it decrease to 10064 crore in 2003-04 further it increase till 2008-09 in this time india face recession even this crucial period FDI inflows was142829 crore. After global recession recover FDI goes on increasing 2018-19 FDI investment was 309867 crore and 258009 crore FDI invested in India. 2019-20 up to December there is 258009 crore FDI has invested in Indian economy. In absolute terms the FDI inflows to the industrial sector in India has kept on increasing year after year.

In 1991, when the government of India started the economic reforms programme, FDI was laid red carpet. The New Industrial Policy of 1991 gave utmost priority to attract FDI inflows. In this process, the government started opening up domestic sectors to the private and foreign participation which was earlier reserved only for the public sector. This was followed by slow but with significant relaxation of regulatory and entry restrictions on FDI inflows.

Chart No 1.



Source: Derived from the table No. 1

The above chart depicts There is upward trend of FDI inflows to Indian economy during last two decades

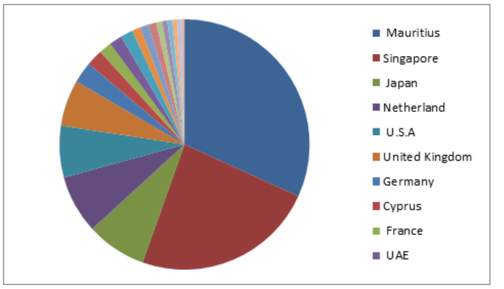
Country wise FDI Inflows
Table No. 2

1	Mauritius	790281
2	Singapore	587820
3	Japan	193070
4	Netherland	186963
5	U.S.A	165967
6	United Kingdom	148438
7	Germany	68050
8	Cyprus	53230
9	France	40038
10	UAE	41169
11	Cayman Islands	39849
12	Switzerland	26998
13	South Korea	27342
14	HongKong	25882
15	Luxembourg	18818
16	Spain	16291
17	Italy	16634
18	China	14846
19	Belgium	11976
20	Canada	11932

RBI's Bulletin for February, 2019

Above table consists of 20 country wise FDI inflows statement, investment on Indian industry. India have plenty of natural resource and minimum cost of labor source and liberalization of FDI regulation it attracted by developed economies. Mauritius is the country is the first place highest investment 790281 crore on Indina Industry the second highest investment by Singapore was 587820 crore on Indian Indian economy. Further Japan invested 193070 crore, Netherland invested 186963 crore ,USA is the world economy leader it also invested 165967 crore, UK invested 148438 crore , Germany invested 68050 crore, Cyprus invested 53230 crore, France invested 40038 crore. UAE invested 41169 Cayman Islands 39849 switzerland 26998 crore south korea invested 27342 crore hong kong 25882 crore, luxembourge invested 18818 crore, spain invested 16291 crore , Italy invested 16634 crore, china is fast growing economies like india invested 14846 crore, Belgium invested 11976 crore, Canada invested 11932 crore. There have been changes in the source countries due to the change of policies in 1991. Prior to 1991, India depended on a few developed western countries for capital. These included countries like Israel, Australia, South Korea, Malaysia, Singapore etc. after the policies have been implemented countries which did not had any share in India's FDI such as Thailand, Saudi Arabia and South Africa etc.

Chart No. 2



The above pie diagram explains the country wise FDI inflows to Indian economy.

Sector wise FDI Investment
Table no. 3

1	SERVICES SECTOR (Fin.,Banking,Insurance,Non Fin/Business,Outsourcing,R&D,Courier,Tech. Testing and Analysis, Other)	462,114.07
2	Computer Software & Hardware	266,385.18
3	Telecommunications	218,047.28
4	Trading	168,426.20
5	Construction Development: Townships, housing, built-up infrastructure and construction-development projects	121,888.63
6	Automobile Industry	141,436.94
7	Chemicals (other Than Fertilizers)	97,134.96
8	Drugs & Pharmaceuticals	87,066.62
9	Construction (infrastructure) Activities	103,388.96
10	Power	80,257.38
11	Hotel & Tourism	85,388.44
12	Metallurgical Industries	60,733.28
13	Food Processing Industries	60,349.12
14	Non-conventional Energy	56,235.56
15	Information & Broadcasting (including Print Media)	51,829.62
16	Electrical Equipments	50,018.69

17	Petroleum & Natural Gas	35,373.64
18	Hospital & Diagnostic Centres	40,420.35
19	Industrial Machinery	32,221.57
20	Consultancy Services	31,555.47

The above table shows the main 20 Industrial sector which attractive more FDI on their well performance. Service sector contributing highest production to GDP its annual growth rate was 7.13 ,The highest amount rupees 462,114 crore FDI invested in the SERVICES SECTOR which include Banking, Insurance, Non Fin/Business, Outsourcing, and other. The second place of FDI attractions sector has computer software and hardware after liberalization we are exporting and gaining more foreign revenue it attracted 266,385 crore. Further Telecommunication and trading sector attracted 218,047 and 168,426 respectively. Construction development sector have received 121,888 crore FDI, Automobile Industry 141,436 crore , Chemical 97,134 crore Drugs & Pharmaceutical sector 87,066 crore, Constructive (infrastrure) activites 103,388 crore, power 80257 crore Hotel and Tourism 85388 crore Metallurgical Industries 60,733 crore Food Processing Industries 60,349 crore, Non-Conventional Energy 56235 crore, Information & Broadcasting (including print media) 51,829, Electrical Equipments 50018 crore, Petroleum & Natural Gas35273 crore, Hospital & Diagnostic Centres 40420 crore, Industrial Machinery 32221 crore, Consultancy Services 31555 crore respectively FDI invested. By the The Central government has taken great steps to increase foreign investment and boost Make in India

Annual GNP growth rate in percent
Table No.4

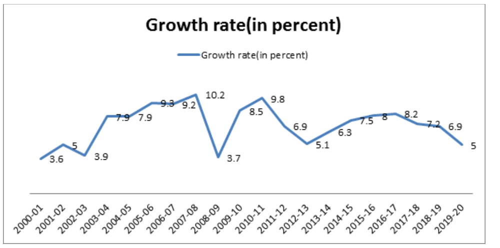
Year	Growth rate(in percent)
2000-01	3.6
2001-02	5.0
2002-03	3.9
2003-04	7.9
2004-05	7.9
2005-06	9.3
2006-07	9.2
2007-08	10.2
2008-09	3.7
2009-10	8.5
2010-11	9.8
2011-12	6.9
2012-13	5.1
2013-14	6.3
2014-15	7.5
2015-16	8.0
2016-17	8.2
2017-18	7.2
2018-19	6.9
2019-20	5.0

Source: Economic survey 2019-20

Indian economy divided as three sector economy agriculture and allied activities, industrial sector and service sector. The above table shows the annual Gross National Product which contains three sector economy annual outputs from 2000-01 to 2019-20. 3.6 growth rate recorded in 2000-01 increase to 5.0 to 2001-02 but it falls to 3.9 percent in 2002-03 due to the low productivity of Industry and agriculture sector. Further from the year 2003-04 GNP tremendously increase upward trend in year by year growth recorded, double digit 10.2 percent at the year of 2007-08. 2008-09 India face severe economic crisis another name Recession which had its genesis in USA in 2007-08 spread to the entire world. Though, India was not affected seriously. It suffered from lack of demand, decline in exports and withdrawal of FIIs from Indian stock market. During Recession industrial growth as it suffered from the depressed demand condition in its export market as well as from suppressed domestic demand due to the slow generation of employment. There was poor economic growth 3.7 percent was in 2008-09

After the recession Indian economy got expansion sign due to well-capitalized and well-regulated financial sector, large stock of foreign reserves in RBI, gradual and cautions opening up of the capital account.afterv2011-12 and 2012-13 again GNP fall to respectively 6.9 percent and 5.1 percent, 6.3 percent at 2013-14 further rise India's GNP 8.2 percent at 2016-17 and till 2019-20 falling GNP growth rate 6.9 percent at 2018-19 and in advance estimate 5.0 percent at 2019-20.

Chart no. 3



Source: Derived from the table No. 4

Multivariate Regression Model

In order to test the impact of industrial finance on industrial production a model formed. In this model industrial production is dependent and foreign direct investment is independent variable. This Model presumes that Industrial production depends upon Foreign Direct investment.

The model is written as
IP= f (FDI)
Where,
IP= Industrial Production
FDI=Foreign Direct Investment
L=Log

In order to make the operation easier to handle the log of all the variables are taken, then
LIP= $\alpha 0 + \alpha 1$ LFDI

Correlation

In order to know the direction and magnitude of relation between Industrial Production, Foreign Investment the Pearson Correlation was done with the help of SPSS 16 which yielded following result.

		Industrial Production	FDI
Pearson Correlation	Industrial Production	1.000	.941
Sig. (1-tailed)	Industrial Production	.	.000
N	Industrial Production	20	

The Industrial Production is highly correlated with Foreign Direct Investment coefficient value is 0 .941 which shows positive correlation.

Results of Regression Estimation

Variable	Coefficient	Std.Error	t-Statistic	Prob.
Constant	4.710	1.044	3.066	.000
LFDI	10.475	.020	11.831	.003
R2	0 .886	Durbin-Watson		0.649
$\bar{R}^2$	0.880			

ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2.290	1	.590	139.970	.000a
	Residual	2.944	18	.000		
	Total	2.584	19			
a. Predictors: (Constant), FDI,						
b. Dependent Variable: IP						

DISCUSSION OF RESULT

The calculated F value is 139.970 with a corresponding value of .000 which states that it is significant at 5% level. Hence the overall fitness of the model is justified.

The value of R square is .886 which is nearing to one indicating that regression model is a good fit. The data implied that 88.6% of variance of the Industrial Production has been explained by the repressor of Foreign Direct Investment. The adjusted R square is 0.886 which means that about 88.6% of the variation in the observed behavior in dependent variable Industrial Production. In order to test the presence of auto correlation Durbin Watson statistics was done which is 0.649

indicating that the problem of autocorrelation is fairly solved.

Industrial Production
=a (4.710) + (.144) FDI
(3.066) (11.831)

The model reveals that one percent increase in Foreign Direct Investment will lead to an increase in Industrial Production by 0.14 percent. FDI is significant source of Industrial Production.

The findings of the study reveal that FDI positively influences the Indian Industrial Production. Hence the hypothesis that FDI is not related with industrial growth in India is rejected and null hypothesis that states FDI growth is correlated is accepted. FDI is significant source of Industrial Production.

CONCLUSION

1991 onwards the Indian industries to the tune of new economy reforms, attracted big amount of FDI year by year. Though Recession which had its genesis in USA in 2007-08 spread to the entire world. Though, India was not affected seriously. It suffered from lack of demand, decline in exports and withdrawal of FIIs from Indian stock market. During Recession industrial growth as it suffered from the depressed demand condition in its export market as well as from suppressed domestic demand due to the slow generation of employment. Though there is sluggish growth industries, the Indian industries is gradually gearing up to fall the competition of the rest of world. The Growth of Industry in 2000-01 to 2019-20 was satisfactory; it helped to build a strong industrial base.

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