



## Role of FDI in Indian Economy Development

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### ABSTRACT

*The developing country like India needs funds or investments which will provide support to make innovations and technological development. Invest in India is an initiative to market, India as an investment destination all over the globe, to provide a networking platform to the Indian businesses at a global level and to provide information to the international investors about investment opportunities in India. It is the policy of the Government of India to attract and promote productive Foreign Direct Investment (FDI) from non-residents in activities which significantly contribute to industrialization and socio-economic development. The investments are also helpful to support growing business or sectors of the country. Foreign Direct Investment (FDI) is the kind of investment which provides supports of funds to various sectors of India such as Service, Telecommunication, Power, Automobile, Petroleum and Natural gas, Construction activities, chemicals, and others too. FDI is the foreign investments which has potential for making a contribution to the development through the transfer of financial resources, technology and innovative and improved management techniques along with raising productivity. This paper will examine the role of FDI for Economic Development of India. The Purpose of this paper is, "to find out that The FDI inflow coming in India has any role for economic development in India or not". This paper puts forward the case for allowing FDI in developing countries.*

**Keywords :** FDI (Foreign Direct Investment), GDPFC (GDP at factor cost)

### INTRODUCTION:

Foreign Direct Investment is defined as, "A form of long term international capital movement, made for the purpose of productive activity and accompanied by the intention of managerial control or participation in the management of foreign firm." Foreign direct investments (FDI) are a major driving force behind the growth of Indian financial markets. Post liberalisation in 1990s, the country is being viewed as a strategic destination by foreign majors to park their investments and benefit from the economic growth. India remains the world's third most attractive destination for investment by transnational corporations (TNCs) during 2013-15, stated a recent survey by UNCTAD. The country was ranked after China and the US in the survey based on responses of 159 companies. Moreover, this economic segment enjoys high attention from top officials of the Government, owing to its strategic importance. The Government keeps making efforts to provide impetus to FDI flows in the country and hence undertakes numerous reform initiatives. FDI norms were further liberalised after September 2012 in sectors like civil aviation, power exchanges and retail. The Ministry of Finance has also suggested modifications in FDI caps for various sectors, including tea, media, natural gas and petroleum.

### REVIEW OF LITERATURE:

**Klaus E Meyer (2003)** in his paper "Foreign Direct investment in Emerging Economies" focuses on the impact of FDI on host economies and on policy and managerial implications arising from this (potential) impact. The study finds out that as emerging economies integrate into the global economies international trade and investment will continue to accelerate.

**John Andreas (2004)** in his work "The Effects of FDI Inflows on Host Country Economic Growth" discusses the potential of FDI inflows to affect host country economic growth. The paper argues that FDI should have a positive effect on economic growth as a result of technology spillovers and physical capital inflows. Performing both cross – section and panel data analysis on a dataset covering 90 countries during the period 1980 to 2002, the empirical part of the paper finds indications

that FDI inflows enhance economic Growth in developing economies but not in developed economies.

**Tomsaz Mickiewicz, Slavo Rasosevic and Urmaz Varblane (2005)**, in their Study, "The Value of Diversity: Foreign Direct Investment and Employment in Central Europe during Economic Recovery", examine the role of FDI in job creation and job preservation as well as their role in changing the structure of employment. The paper also find out that the increasing differences in sectoral distribution of FDI employment across countries are closely relates to FDI inflows per capita.

**Khan A.Q. and Siddiqui Ahmad Taufeeque (2011)**, studied the impact of FDI on Indian economy and a comparison with China & USA. The paper have also been ventured into carving out set of strategies to deal with the issues & problems in attracting FDI for promotion & growth of international trade. The double log model has been used to find elasticity between different factors in this paper. They also highlight the impact of FDI on employment. In this research paper, the discussion between FDI and GDP as to asses that FDI helps in boosting growth of a country.

**Bhanagade D.B, Shah A. Pallavi (2011)**, they said in their paper that the impact of FDI on Indian Economy where they also emphasize on the investments, sectors attracting highest FDI inflows and FDI leads to Generation of Employment opportunities. Therefore the growth of inflow of FDI would lead to positive growth of Gross capital formation. In India, the growth of GDP is largely influenced by FDI.

**Chaturvedi Ila (2011)**, In this paper, analyze the FDI inflows with special reference to sector wise inflows in India. This paper also explore the sector wise distribution of FDI in order to know the dominating sector which has attracted the major share of FDI in India. And to find out the correlation between FDI and Economic Development, It reveals that there is high degree of significance between FDI and economic development.

**STATEMENT OF THE PROBLEM**

India has among the most liberal and transparent policies on FDI among the emerging economies. High growth prospects, in terms of increased consumption in the India as well as increasing demand for exports are expected to lead to more Foreign Direct Investments in this sector. Further to avoid misunderstanding, the study focuses on the how the inflow of FDI will lead to play a role in economic development of the country. How well the FDI contributes for economic growth.

**NEED FOR THE STUDY**

There are several studies that focus on role of FDI in economical development of the country. FDI is also providing fund in India. So here we need to find out that does FDI supports in economic development of country.

**OBJECTIVE OF THE STUDY:**

**Main Objective:**

To analyze the FDI inflows in India with special reference to Sector-wise inflows.

**Supportive Objectives:**

- To analyze the FDI flows as to identify country wise approvals of FDI inflows to India.
- To explore the Sector wise distribution of FDI inflows in order to point out the dominating sector, which has attracted the major share.
- To rank the sectors based upon highest FDI inflows.
- To find out the correlation between FDI and Economic Development of India.

**METHODOLOGY OF THE STUDY:**

**Sampling Design**

**Sample:**

- Annual FDI inflow in India(from year 1991-2013)
- Annual FDI inflow of top 10 sector (from 2010-2013)
- Annual FDI inflow of top 10 sectors(from 2010-2013)
- Annual GDP at factor cost(from 1991-2013)

**Sample size:**

- Yearly Inflow of FDI for last 22 years,
- GDP at factor cost of last 22 years of India,
- Top 10 Sectors FDI inflow for last 3 years,
- Top 10 Country's FDI Inflow of last 3 years.

**Sampling Method:** Non-Probability Judgmental.

**Nature and Sources of Data:** The Present study is of analytical nature and secondary data are used. The data for GDP<sub>FC</sub> are collected from government websites which published online economic survey for 2012-2013 and for FDI's data are collected from the website of department of policy and promotion.

**LIMITATION OF STUDY:**

- There are more than 134 countries are providing FDI inflow in Indian economy. Here only top 10 Countries are used for analysis from which major FDIs are coming.
- Top 10 Sectors are selected from the 63 sectors available for FDI investment in India.
- The sectors ranking keeps on changing so from last 3 years (2010-2013) sectors are selected for objective achievement.

**TOOLS AND TECHNIQUES OF DATA ANALYSIS:**

**Correlation:**

Correlation is a statistical measure that indicates the extent to which two or more variables fluctuate together. A positive correlation indicates the extent to which those variables increase or decrease in parallel; a negative correlation indicates the extent to which one variable increases as the other decreases. When the fluctuation of one variable reliably predicts a similar fluctuation in another variable, there's often a tendency to think that means that the change in one causes the change in the other. However, correlation does not imply causation. There may be, for example, an unknown factor

that influences both variables similarly.

**Correlation Coefficient Interpretation**

Coefficient Range	Strength of Relationship
0.00 - 0.20	Very Low
0.20 - 0.40	Low
0.40 - 0.60	Moderate
0.60 - 0.80	High Moderate
0.80 - 1.00	Very High

**Formula Simply Used To Find Out Correlation Coefficient:**

In real practice we use formula that is mathematically identical but is much easier to use. This is the computational or raw score formula for the correlation coefficient. The computational formula for the Pearson an r is:

$$r = \frac{N \sum XY - (\sum X)(\sum Y)}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

By looking at the formula we can see that we need the following items to calculate r using the raw score formula:

The number of subjects, N

The sum of each subjects X score times the Y score, summation XY

The sum of the X scores, summation X

The sum of the Y scores, summation Y

The sum of the squared X scores, summation X squared

The sum of the squared Y scores, summation Y squared

**DATA ANALYSIS**

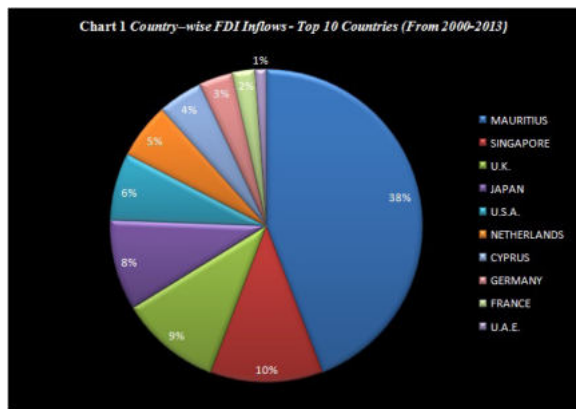
Note: The amount given in bracket is in terms of US \$ in millions and the amount not given in bracket in the table are of in terms of Indian rupees

**Table 1 Country-wise FDI Inflows - Top 10 Countries (From 2010-2013) Amount Rupees in Crores and (Amount US \$ in millions)**

Ranks	country name	Amount of FDI in: Rupees in crores. (US \$ in millions)				%age to total inflows
		2010-2011	2011-2012	2012-2013	cumulative inflows of 2000-20013	
1	MAURITIUS	31855 (6,987)	46710 (9,942)	51654 (9,497)	341,125 (73,666)	38%
2	SINGAPORE	7730 (1,705)	24712 (5,257)	12594 (2,308)	90182 (19,460)	10%
3	U.K.	3434 (755)	45229 (9257)	5797 (1,080)	80459 (17,549)	9%
4	JAPAN	7,063 (1,562)	14089 (2,972)	12243 (2,237)	70094 (14,550)	8%
5	U.S.A.	5353 (1,170)	5347 (1,115)	3033 (557)	50923 (11,121)	6%
6	NETHERLANDS	5501 (1,213)	6698 (1,409)	10054 (1,856)	42378 (8,965)	5%
7	CYPRUS	4171 (913)	7722 (1,587)	2658 (490)	32328 (6,889)	4%

8	GERMANY	908 (200)	7452 (1,622)	4684 (860)	25512 (5,480)	3%
9	FRANCE	3349 (734)	3110 (663)	3487 (646)	16865 (3,573)	2%
10	U.A.E.	1569 (341)	1728 (353)	987 (180)	11307 (2,422)	1%
	Total FDI Inflows from all countries	97320 (21,383)	165146 (35,121)	121907 (22,423)	896913 (193,403)	86%

Source: Government of India (GOI) (2013). FDI Statistics, Ministry of Commerce & Industry, Department of Industrial Policy and Promotion



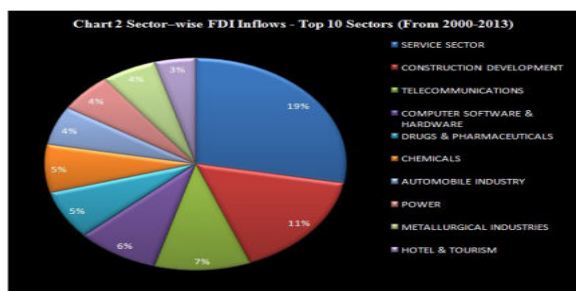
From the table no 1 and Chart 1 we can interpret that India's 86% of cumulative FDI is contributed by ten countries while remaining 14 % by rest of the world. The analysis of country wise inflows of FDI in India indicates that during 2010-2013, the total amount of Rs 375573 of FDI was received from 134 countries. In the years 2000-2013 total amount of 896913 was received from all countries from which 86% of amount was received from these 10 countries only.

Mauritius emerged as the most dominant source of FDI contributing 38 % of the total investment in the country. Singapore was the second dominant source of FDI inflows with 10% of the total inflows. UK occupied third position with 9% followed by JAPAN with 8%, However, USA slipped to fifth position by contributing 6% of the total inflows. the other countries like NETHERLANDS with 5%, CYPRUS with 4%, GERMANY with 3%, FRANCE with 2% and U.A.E with 1% of participation in investment of FDI in the country. It has been observed that some of the countries like Israel, Thailand, Hong Kong, South Africa and Oman increased their share gradually during the period under study. It is also interesting to note that some of the new countries such as Hungary, Nepal, Virgin Islands, and Yemen are making significant investments in India.

Table 2 Sector-wise FDI Inflows - Top 10 Sectors (From 2010-2013) Amount Rupees in Crores and (Amount US \$ in millions)

Ranks	Sector	2010-2011	2011-2012	2012-2013	cumulative inflows of 2000-20013	% age to total inflows
1	SERVICE SECTOR	15054 (3,296)	24656 (5,216)	26306 (4,833)	172275 (37,235)	19%
2	CONSTRUCTION DEVELOPMENT:TOWNSHIPS, HOUSING, BUILT-UP, INFRASTRUCTURE	7590 (1,663)	15236 (3,141)	7248 (1,332)	101049 (22,080)	11%
3	TELECOMMUNICATIONS (radio paging, cellular mobile, basic telephone services)	7542 (1,665)	9012 (1,997)	1654 (304)	58732 (12,856)	7%
4	COMPUTER SOFTWARE & HARDWARE	3551 (780)	3804 (796)	2656 (486)	52774 (11,691)	6%
5	DRUGS & PHARMACEUTICALS	961 (209)	14605 (3,232)	6011 (1,123)	48880 (10,318)	5%
6	CHEMICALS (OTHER THAN FERTILIZERS)	10612 (2,354)	18422 (4,041)	1596 (292)	40496 (8,881)	5%
7	AUTOMOBILE INDUSTRY	5864 (1,299)	4347 (923)	8384 (1,537)	39170 (8,295)	4%
8	POWER	5796 (1,272)	7678 (1,652)	2923 (536)	36137 (7,834)	4%
9	METALLURGICAL INDUSTRIES	5023 (1,098)	8348 (1,786)	7878 (1,466)	34814 (7,507)	4%
10	HOTEL & TOURISM	1405 (308)	4754 (993)	17777 (3,259)	33260 (6,631)	3%

Source: Government of India (GOI) (2013). FDI Statistics, Ministry of Commerce & Industry, Department of Industrial



68% of cumulative FDI is invested in these ten sectors while remaining 32% invested in rest. The analysis of sector wise inflows of FDI in India indicates that during 2010-2013, the total amount of Rs 375573 of FDI was received from 134 countries. In the years 2000-2013 total amount of Rs. 617587 was invested in this 10 sectors only out of Rs. 896913.

Service sector is the most attractive sector for investment in these years; the having investment of Rs.172275 (US \$37235) which is of 19% of total FDI inflow. On the 2<sup>nd</sup> rank Construction and development with the amount of investment in Rs. 101049 (US \$22080) having 11% of investment. Telecommunication sector still stays on the position of 3<sup>rd</sup> rank with

From the table no 2 and Chart 2 we can interpret that India's

the investment of 7%. Other sectors in top 10 countdowns such as Computer Software & hardware with 6%, Drugs and Pharmaceuticals, and chemicals sector both enjoys 5 % of investment while the sectors like automobile, power and metallurgical industry having investment of 4 % in the years 2000-2013, and last but not the least hotel & tourism sector enjoys 3% of investment in the country.

**Table 3 Rank of Sector-wise FDI Inflows**

Ranks	Sector	Cumulative inflows of 2000-20013 In RS. ( In \$)
1	SERVICE SECTOR	172275 (37,235)
2	CONSTRUCTION DEVELOPMENT: TOWNSHIPS, HOUSING, BUILT-UP, INFRASTRUCTURE	101049 (22,080)
3	TELECOMMUNICATIONS (radio paging, cellular mobile, basic telephone services)	58732 (12,856)
4	COMPUTER SOFTWARE & HARDWARE	52774 (11,691)
5	DRUGS & PHARMACEUTICALS	48880 (10,318)
6	CHEMICALS (OTHER THAN FERTILIZERS)	40496 (8,881)
7	AUTOMOBILE INDUSTRY	39170 (8,295)
8	POWER	36137 (7,834)
9	METALLURGICAL INDUSTRIES	34814 (7,507)
10	HOTEL & TOURISM	33260 (6,631)

**Source Fact Sheets on FDI, DIPP**

The table no 3 displays the ranking of top 10 sectors on the basis their total inflow of FDI from the year 2000 to 2013. Service sector with the amount of investment of Rs. 172275 crores (37235 US million \$) having 19% of inflow from total FDI secured 1<sup>st</sup> rank. While hotel and tourism with the amount of Rs. 33260 crores (6631 US million \$) which of 3% of FDI inflow from total FDI secured 10<sup>th</sup> rank.

**Role of FDI in Economic Development of the Country:**

**Table 4: Yearly flow of FDI and GDP<sub>FC</sub>**

Year	FDI Inflow Rs. crore)	(in	GDP at factor Cost
1991-1992	408		613528
1992-1993	1094		703723
1993-1994	2018		817961
1994-1995	4312		955386
1995-1996	6916		1118586

1996-1997	9654	1301788
1997-1998	13548	1447613
1998-1999	12343	1668739
1999-2000	10311	1847273
2000-2001	12645	1991982
2001-2002	19361	2167745
2002-2003	14932	2338200
2003-2004	12117	2622216
2004-2005	17138	2971464
2005-2006	24613	3390503
2006-2007	70630	3953276
2007-2008	98664	4582086
2008-2009	123025	5303566
2009-2010	123377	6108903
2010-2011	88520	7266967
2011-2012	165146	8353495
2012-2013	121907	9461979
Correlation between FDI & GDP <sub>FC</sub>		
		Column 2/Column 1
FDI Inflow		1
GDP at factor cost		10.924302625

FDI is considered to be the life blood and an important vehicle of for economic development as far as the developing nations are concerned. The important effect of FDI is its contribution to the growth of the economy. FDI has an important impact on country's trade balance, increasing labour standards and skills, transfer of technology and innovative ideas, skills and the general business climate. FDI also provides opportunity for technological transfer and up gradation, access to global managerial skills and practices, optimal utilization of human capabilities and natural resources, making industry internationally competitive, opening up export markets, access to international quality goods and services and augmenting employment opportunities.

The value of **Karl Pearson co relation(r)** is found to be +0.92. It means that there is very high degree positive correlation between the FDI and Economic Development.

**CONCLUSION:**

The correlation +0.92 shows that there is very high degree of positive correlation between FDI inflow and GDP<sub>FC</sub>. It means that the trend of Indian economy moves similar to the trend of FDI inflow. So the research proves that FDI has role to play in the flow of GDP<sub>FC</sub>. The paper also proves that FDI has impact on Indian economy though there are also other variables which may affect to the inflow of FDI and GDP<sub>FC</sub> in India.

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