“FOREIGN DIRECT INVESTMENT AND ITS IMPACT ON INDIAN ECONOMY: A STUDY FROM 1991-2021”

DISSERTATION SUBMITTED TO
CENTRAL UNIVERSITY OF ODISHA, KORAPUT
In Partial Fulfillment of the Requirements for the Degree Of
MASTER OF ARTS (M.A.) IN ECONOMICS

By

BIBHUTI RANJAN DAS
Roll No. 20/02/DE/16

Under the Guidance of

Mr. Prasant Kumar Behera
Assistant Professor Dept. of Economics
& HoD (I/C) Dept. of Business Management

DEPARTMENT OF ECONOMICS
SCHOOL OF SOCIAL SCIENCES
CENTRAL UNIVERSITY OF ODISHA
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DECLARATION

I **Bibhuti Ranjan Das** do hereby declare that the dissertation titled "**Foreign Direct Investment and its Impact on Indian Economy: A Study From 1991-2021"** submitted by me under the guidance and supervision of Mr. Prasant Kumar Behera in partial fulfillment of the requirement for the award of the degree of Master of Arts (M.A.) in Economics, Department of Economics, Central University of Odisha, Koraput is a bonafide research work.

I also declare that it has not been submitted previously, either partly or fully to this university or any other university/institution, for the award of any other degree or diploma.

Date:
Place: Koraput

Bibhuti Ranjan Das
Enrolment No. 20/02/DE/16
Programme- MA in Economics
Department of Economics,
Central University of Odisha,
Koraput, Odisha, 763004

Mr. Prasant Kumar Behera
Assistant Professor Dept. of Economics &
HoD (I/C) Dept. of Business Management
Department of Economics
Central University of Odisha
Koraput, Odisha, 763004

CERTIFICATE

This is to certify that the dissertation titled **"Foreign Direct Investment and its Impact on Indian Economy: A Study From 1991- 2021"** being submitted by **Bibhuti Ranjan Das** (Enrolment No. 20/02/DE/16) in partial fulfillment of the requirement for the award of the degree of Master of Arts (M.A.) in Economics, Department of Economics, Central University of Odisha, Koraput is a bonafide research work carried out by him/her under my supervision and guidance.

No part of the study reported here has so far been submitted anywhere for any other degree or diploma.

Place: Koraput

Date:

Signature of Supervisor/Guide

Signature of Head of the Department

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BIBHUTI RANJAN DAS

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ABBREVIATIONS

FDI= Foreign Direct Investment

GDP = Gross Domestic Product

FIN. Position = Financial Position

TRADEGDP= Total Trade as percentage of GDP.

RESGDP= Foreign Exchange Reserves as percentage of GDP.

R&DGDP= Research & development expenditure as percentage of GDP.

FIN. Position = Ratio of external debts to exports

EXR= Exchange rate

GDPG = level of Economic Growth

FDIG = Foreign Direct Investment Growth

ABSTRACT

Foreign Direct Investment (FDI) plays an important role in global business. It can provide a firm with new marketing channels, cheaper production facilities, access to technology transfer, product, skills and financing. With the advent of globalization and strong governmental support, foreign investment has helped the Indian economy grow tremendously. India has continuously sought to attract investment from the world's major investors. In 1998 and 1999, the Government of India announced a number of reforms designed to encourage and promote a favorable business environment for investors. Foreign investments in the country can take in the form of investments in listed companies i.e., Foreign Institutional Investors'(FIIs) investments, investments in listed/unlisted companies other than through stock exchanges i.e., through the foreign direct investment or private equity/foreign venture capital investment route, investments through American Depository Receipts (ADR), Global Depository Receipts (GDR), or investments by Non-Resident Indians (NRIs) and Persons of Indian Origin (PIOs) in various forms. This paper attempts to review the importance of foreign direct investments in Indian economy, particularly after a decade of economic reforms and analyze the role played by the FDI in the economic development of the country. The study is diagnostic and exploratory in nature and makes use of secondary data. The study finds and concludes that the foreign direct investment in India have significantly improved and developed the economy as well.

Keywords: Foreign Direct Investment, Economy, Gross Domestic Product, Exports, and Foreign Exchange Reserves.

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INTRODUCTION

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CHAPTER – 1

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

One of the most striking developments during the last two decades is the spectacular growth of FDI in the global economic landscape. FDI is a key part of the world economy's global efforts. Economic and technological forces are driving growth of international production. The continuing liberalization of FDI and trade policies is also behind it. One feature of the world today is the circulation of private capital flows in developing countries, particularly since the 1990s, in the form of foreign direct investment (FDI). Since the 1980s, MNCs have emerged as major actors in the sense of globalization. In this sense, globalization gives developing countries such as India a parallel opportunity to achieve rapid economic growth through trade and investment. International trade expanded more rapidly than the FDI in the 1970s, so far the major economic activities in international cooperation were international trade. In the middle of the 1980s, FDI started to sharply grow, which fundamentally changed. In this time, FDI increased during importance through the transition of technology and the development of marketing and global supply networks for efficient manufacturing and sales. FDI flows include capital provided by foreign investors to enterprises in another economy directly or indirectly, with anticipation that they will make better profit and participate in the management of the company in which they invest. In proportion to their equity portfolios, foreign investors accumulate capital in host-country companies. The previous Indian FDI definition differs from that of the IMF as well as the UNCTAD WIR definition; the IMF definition comprises ECBs. FDI inflows will preferably reflect the formation of capital, the formation of new businesses in one factory, the increase in foreign equity held in existing firms, M&As in existing companies and others.

This is the empirical definition used by many countries to distinguish between FDI and portfolio streams. FDI was defined as the ' investment to gather a lasting interest in a company which operates in the economy other than the investor's by the International Monetary Fund (IMF),' the object of which is that of an investor to have an effective corporate management voice (IMF, 1977). FDI is the process through which residents of one country (source country) are acquired by assets in order to monitor a business in another country (host country)'s production, distribution and other productive activities.

Investing abroad will reduce the gap in domestic savings. Therefore, despite the investment gap in domestic savings, economic growth with foreign investment influxes may be increased in an open economy. Indian foreign investment would boost domestic investment. For developing countries such as India, foreign investment is conducive to economic growth and development. Investing in an economy increases production and enhances people's living standards. To hold it alive is to try their best to pursue investment schemes in both developed and developing countries. When access to capital in many countries is scarce due to low domestic savings, foreign investment is becoming more and more important. The multinational is an appropriate tool for integrating the world economy. External investment growth is directly linked to the success of multinational corporations.

Foreign Direct Investment (FDI) is described by a United Nations Conference on Trade and Development (UNCTAD) as "international investment that reflects the resident entity's goal of a single economy (FDI) of acquiring" Lasting Interest "and exercising control in an economic enterprise other than that of a foreign direct investment. Durable interest' means the existence and significant influence on the company's management of long-term relationships between direct investor and business.

1.1.1 CONCEPTUAL FRAMEWORK OF FDI

Capital is described as a growth engine. In recent times, this claim has become more relevant. Traditionally, various sources of capital have been either demand by industrial or foreign aid countries for their output (raw material) and by the foreign banks or loans. Official development aid flows, however, are declining constantly nowadays. In addition to others, FDI has taken on a major role in recent years as a source of funds.

FDI reflects a long-term investment that reflects a permanent interest and control of a resident entity in an economy other than that of the foreign direct investor. The investment is based on a long-term relationship. FDI may be undertaken by individuals and business entities. These investments include both the initial transactions between the two companies and all subsequent transactions between them and between international affiliates.

Flows from FDI include forms of investment equity and non-equity. The capital flows include the acquisition by foreign direct investors of shares in a company and include reinvested profits by foreign direct investors. Moreover, FDI's investment form also includes the loans and bond transactions between foreign investors and subsidiaries of the short and long-term infrastructure business. FDI's non-equity component involves investments by subcontracting, management, contracts, turnkey agreements, licensing and franchising operations, and distribution of goods.

FDI shall include foreign ownership and control of a company abroad. The investing country usually transfers some of its economic, technological, administrative, marks and other assets to the recipient country in return for this ownership. FDI flows form an essential part of the national financial account of a country. In FDI, a firm founded in a foreign country may invest in a host country by purchasing a product, software, administration, marketing skills, etc. Such investments do not require foreign funding, investment portfolio or debt repayable. In other words, FDI reflects direct foreign firms ' investment in the host country's productive assets for a long-term commodity and developed market. It involves activities that directly and ultimately control the strategy and the right to change decisions by the parent company. Another source of capital consists of short and long-term lending, commercial loans, vendor loans, finance leasing, financial derivatives, equity and land and property securities. In order to increase economic growth and development, FDI is seen as a way to supplement domestic investments. FDI provides both domestic and customer benefits by providing opportunities for technological advancement, access to international management skills and experience, the enhancement of the use of human and natural resources, productivity of industry worldwide, opening up the export market, delivering goods and services of backward Valu. In the economic development of a country, foreign investment and technology play an important role to improve their economies.

Foreign Direct Investment (FDI), despite its limited or even diminishing share in global distribution of FDI, has been the key source of foreign capital flows to developing countries over the years and has become a significant share of equity growth in these countries. In the host economy, the effects of FDI are usually expected to increase employment, increase productivity, increase export growth and increase the pace of technology transfer. Promote the use and use of local raw materials, introduce modern management and marketing methods, promote access to new technology, allow for international inflows to fund current account deficits; finance flows in the form of FDI do not produce repayment of principal and interest (as opposed to external debt); The FDI's effect on growth in production was limited by a decline in physical capital returns.

Therefore, only the level of per capita production but not the rate of growth could be impacted by FDI. In other words, the development of the production could not be altered in the long term. FDI is known as the engine of growth in the developed economies within the new theory of economic growth. As the World Bank (2002) pointed out, several recent studies have found that FDI is able to support economic growth and export in the host country. The exact relationship between foreign multinationals and their host countries, however, varies considerably from country to industry. The host country's characteristics and political environment contribute greatly to the FDI's net profit.

1.1.2 ROLE OF FDI IN CAPITAL FORMATION

In Capital Formation, FDI plays a role. The positive impact on transition economies of foreign direct investment (FDI) has been widely recognized. This contributes to the funding of the current account deficit, a fiscal deficit and balances insufficient domestic funds to fund both ownership and asset development. FDI is an important source of financing for the transitional economies. FDI also facilitates technology, know-how and skills transfer compared to other funding options and helps local companies expand into external markets. A quick look at the process of capital formation can be observed here after you have seen the importance of capital. Firstly, it increases real savings to allow assets to be taken out of consumption and diverted to investment in capital production products. Capital formation has three phases. Firstly, there is a financial credit system so that funds can be demanded from an investor, i.e. the borrowing process by the financial intermediaries to invest and eventually, an investment act. in order to make use of assets for the manufacture of capital items.

1.2 SOURCES OF CAPITAL

It is also useful to identify the two principal sources of capital formation as domestic and foreign, after understanding the process of capital formation. Both are an important investment source and play an important role in the country's economic development. They satisfy the need for domestic investment in the future, i.e. industrial and economic development. The state and financial institutions have taken so many steps to promote national savings and attract foreign capital in their own country.

1.2.1 Domestic Sources of Capital Formation

Domestic sources of capital formation include taxes, public sector revenue, deficit funding and reduction of the global demonstration effect, disguised unemployment use and voluntary and forced savings. In the promotion of development in the region, domestic resources play an important role. In short, these sources are:

I. Voluntary Savings

Houses and businesses have two primary sources of voluntary savings. About the amount of household savings serving general people in the country of origin. It depends on various factors like per capita income, wealth distribution, access to banking facilities, the company's Value system, etc. The people's saving potential is also low in the undeveloped countries as more of them are in absolute poverty. Nonetheless, in less developed countries, industry is a major source of voluntary savings. They usually hesitate to take on investment-related risks. The fear of nationalization and political instability often needs incentives for saving and investing in the country. The Statistics of many underdeveloped countries show that these two sources can hardly save 15% of their GDP. This is not even enough to maintain the masses ' present living standards.

II. Involuntary Savings

The per capita income of the people is low in the developing countries. Their prone to consumption is very strong, mainly because of the proof effect. The government is therefore taking measures which restrict consumption and increase savings volume, as savings flow is not sufficient to meet the capital needs of the country. Taxes and compulsory provisions for government borrowing are traditional methods used to raise savings volumes. The above two fiscal measures are very sensitive and sensitive. You should be very carefully thought out and handled. If, for example, low and medium-sized individuals in various forms of taxation are heavily taxed, their ability to save is burdened with taxes. The fiscal framework should be designed so as to provide opportunities for different levels of income groups to operate save and invest.

III. Government Borrowing

The domestic savings volume can also be raised by public borrowing. Government issues long and short-term bonds in different denominations and mobilizes both the general public and financial institutions to save. There are many barriers to government borrowing in the developing countries. For example, there is no organization of the money and capital market. A proper financial institution is not given for the rural sector. An analphabetism prefer to invest in gold, jewels, etc. The development of a working program of mobilizing people's savings both in cities and rural areas should therefore be carried out by the developing countries ' governments.

IV. Use of Idle Resources

Most services remain unused and underutilized in the developing countries around the world. The rate of capital formation can increase quickly if properly tapped and diverted for productive purposes. For example, there is masked unemployment in the rural sector in most low-income countries. If surrogates are used for the construction of roads, tubes, canals and school buildings in or near their villages, or if their services are acquired on the basis of self-help for projects that create capital, they can be a valuable source of investment formation in the country.

V. Deficit Financing

The financing of the deficit is considered an important capital formation source. This method is used in the developed countries to increase effective demand and to ensure continued high economic activity. It is used for the development and non-development expenses of the government in less developed countries.

1.2.2 Foreign Sources of Capital Formation

Foreign capital sources consist of foreign aid, import restrictions, strengthened export trade, export promotion and external credit in the form of borrowing and advance and, eventually, domestic foreign investment. There are various form.

I. Foreign Economic Assistance

The impact of capital inflows on a country's development is controversial. Capital is expected to be one of the growth factor. If a country's government is ineffective and people are unable to face social changes, it will be wasteful to have capital inflows and technical assistance. When foreign capital and technical assistance for the developing countries are willing to absorb resources and technical knowledge and social and political obstacles are eliminated, the capital will then become the foundation of economic development. Nevertheless, the primary advantages of international economic support are as follows:

i. Foreign Loans Bridge Saving Gap

The total domestic saving is very low in comparison with GDP in most developing countries. The low savings rate is not enough to reach the desired country growth rate. International borrowing complements domestic savings and helps bridge the capital gap between host and household savings.

ii. Close The Trade Gap

Export production is significantly below import requirements. Production exceeds import and export fills the foreign exchange gap with capital inflow. Exports are small compared to imports in the case of developing countries. This has contributed to a balance of payment crisis and the depletion of the foreign reserve in developing countries . Foreign capital eliminates this divide and leads to the growth of the economy.

iii. Provides Employment Opportunities

Foreign capital offers capital investment and infrastructure development assistants, financing for various projects, technological upgrading and financial support required for development projects. Capital inflow and technical knowledge increase the productive capital of different sectors of the economy and provide employment. Foreign resources, however, contribute to increased marginal work productivity in the recipient country. The workers ' real wages are therefore increased by foreign aid. These financial supports or investments of all sorts help the people in the home country's economic growth and skilled and untrained jobs.

iv. Increase in Revenue Income

Foreign capital helps the country to establish industries. The input of technical skills enhances production quantity and quality and makes it accessible to domestic consumers at lower prices. Domestic companies are stimulated by influx of foreign capital and advanced technology. The company benefits from global markets such as the recruitment of staff, new technology introductions, and new machinery and so on. Nevertheless, all of these measures increased domestic income as government taxes raise the revenue of the government's foreign investment gains.

1.3 FACTORS AFFECTING FOREIGN INVESTMENT

In the host country, foreign investment has so many impacts. Foreign investors are researching the obstacles of the host countries that impact foreign investors negatively because none of the companies wants a loss after investments. There are so many reasons for not investing in the host country as a foreign company.

(i)Rate of Interest/ Foreign Exchange Rate

The disparity in the rate of interest at different locations is one of the most important reasons for foreign capital movements. Some aspects are the same, capital continues to shift from a low interest rate country to a higher one. In this situation the foreign investment movement is very slow when the exchange rate is unstable and the possibility of a decline is in future.

(ii) Speculation

Speculation regarding anticipated changes in interest rates can influence the short-term capital movements. The investment portfolio in the host country market is a form of speculation. If the host country market is strong in speculation, the investment is decreased by foreign investors. As a result, foreign investment movement in the host country is small.

(iii) Profitability

The motive of profit influences the private foreign capital movement. Therefore, private capital will flow to countries with comparatively higher returns on investment. Foreign investors, on the other hand, tend to earn high income, when the probability of future profit in the host country is low, foreign investment movement will also be small.

(iv) Costs of Production

Lower production costs in foreign countries encourage private capital movements. Two types of cost-saving investment can be distinguished. The first is because raw materials must be obtained in the outside world. These materials can not be purchased at home or at very high costs, but they are important to the manufacture and sale of finished products at home or abroad. Opportunities to profit would be unexplored without them. Nevertheless, the fact that capital will enter the asset, the second cost-cutting expenditure of the product other than resources, primarily labor, is driven by large investments in the extractive industries.

(v) Economic Conditions

Private foreign investment is influenced by economic conditions, particularly market potential and infrastructure facilities. The population's size and country's income level have a significant impact on the market opportunities.

(vi) Government Policies

The government policies are important factors that may affect foreign investment in a country, particularly in relation to foreign investment, foreign cooperation, transfer payments, revenues, taxations, exchange control, tariffs and monetary incentives and other steps.

(vii) Political Factors

Policy considerations such as political stability, political party structure and relations with other countries also affect movements of capital. Political influence on business practices such as tax changes and industrial policies have adverse effects on the movement of foreign investment in the country, on the other hand.

1.4 Current scenario of FDI inflow in INDIA

Infact, in the early nineties, Indian economy faced severe Balance of payment crisis. Exports began to experience serious difficulties. There was a marked increase in petroleum prices because of the gulf war. The crippling external debts were debilitating the economy. India was left with that much amount of foreign exchange reserves which can finance its three weeks of imports. The outflowing of foreign currency which was deposited by the Indian NRI's gave a further jolt to Indian economy. The overall Balance of Payment reached at Rs.(-) 4471 crores. Inflation reached at its highest level of 13%. Foreign reserves of the country stood at Rs.11416 crores. The continued political uncertainty in the country during this period adds further to worsen the situation. As a result, India's credit rating fell in the international market for both short- term and long- term borrowing. All these developments put the economy at that time on the verge of default in respect of external payments liability. In this critical face of Indian economy the then finance Minister of India Dr. Manmohan Singh with the help of World Bank and IMF introduced the macro – economic stabilization and structural adjustment programm. As a result of these reforms India open its door to FDI inflows and adopted a more liberal foreign policy in order to restore the confidence of foreign investors.

Further, under the new foreign investment policy Government of India constituted FIPB (Foreign Investment Promotion Board) whose main function was to invite and facilitate foreign investment through single window system from the Prime Minister's Office. The foreign equity cap was raised to 51 percent for the existing companies. Government had allowed the use of foreign brand names for domestically produced products which was restricted earlier. India also became the member of MIGA (Multilateral Investment Guarantee Agency) for protection of foreign investments. Government lifted restrictions on the operations of MNCs by revising the FERA Act 1973. New sectors such as mining, banking, telecommunications, highway construction and management were open to foreign investors as well as to private sector

Table(1.1)-FDI Inflows In INDIA in crore (*from 1948-2021*)

Amount of FDI	**Mar-10**	**Mar-12**	**Mar-15**	**Mar-18**	**Mar-19**	**Mar-20**	**Mar-21**
In crores	**1,23,378**	**1,21,907**	**262322**	**2,88,889**	**3,09,867**	**2,58,009**	**4,42,569**

Source: Ministry of promotion Board of INDIA

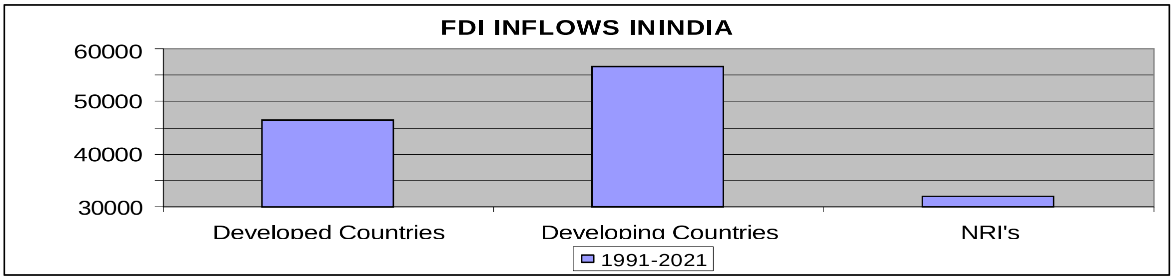
There is a considerable decrease in the tariff rates on various importable goods. Table –1.1 shows FDI inflows in India from 2010-2020 .FDI inflows during 2010 to March 2021 in India increased manifold as compared to during mid 1990 to march 2000. The measures introduced by the government to liberalize provisions relating to FDI in 1991 lure investors from every corner of the world. There were just few (U.K, USA, Japan, Germany, etc.) major countries investing in India during the period mid 2000 to march 2021 and this number has increased to fifteen in 1991. India emerged as a strong economic player on the global front after its first generation of economic reforms. As a result of this, the list of investing countries to India reached to maximum number of

120 in 2008. Although, India is receiving FDI inflows from a number of sources but large percentage of FDI inflows is vested with few major countries. Mauritius, USA, UK, Japan, Singapore, Netherlands constitute 66 percent of the entire FDI inflows to India. FDI inflows are welcomed in 63 sectors in 2008 as compared to 16 sectors in 1991.

1.4.1 FDI INFLOW IN POST REFORM ERA

India's economic reforms way back in 1991 has generated strong interest in foreign investors and turning India into one of the favourite destinations for global FDI flows. According to A.T. Kearney[1], India ranks second in the World in terms of attractiveness for FDI. A.T. Kearney's 2007 Global Services Locations Index ranks India as the most preferred destination in terms of financial attractiveness, people and skills availability and business environment. Similarly, UNCTAD's[76] World Investment Report, 2005 considers India the 2nd most attractive destination among the TNCS. The positive perceptions among investors as a result of strong economic fundamentals driven by 18 years of reforms have helped FDI inflows grow significantly in India. The FDI inflows grow at about 20 times since the opening up of the economy to foreign investment. India received maximum amount of FDI from developing economies (Chart– 1.2). Net FDI flow in India was valued at US$ 33029.32 million in 2008. It is found that there is a huge gap in FDI approved and FDI realized (Chart- 1.3). It is observed that the realization of approved FDI into actual disbursements has been quite slow. The reason of this slow realization may be the nature and type of investment projects involved. Beside this increased FDI has stimulated both exports and imports, contributing to rising levels of international trade. India's merchandise trade turnover increased from US$ 95 bn in FY02 to US$391 bn in FY08 (CAGR of 27.8%).

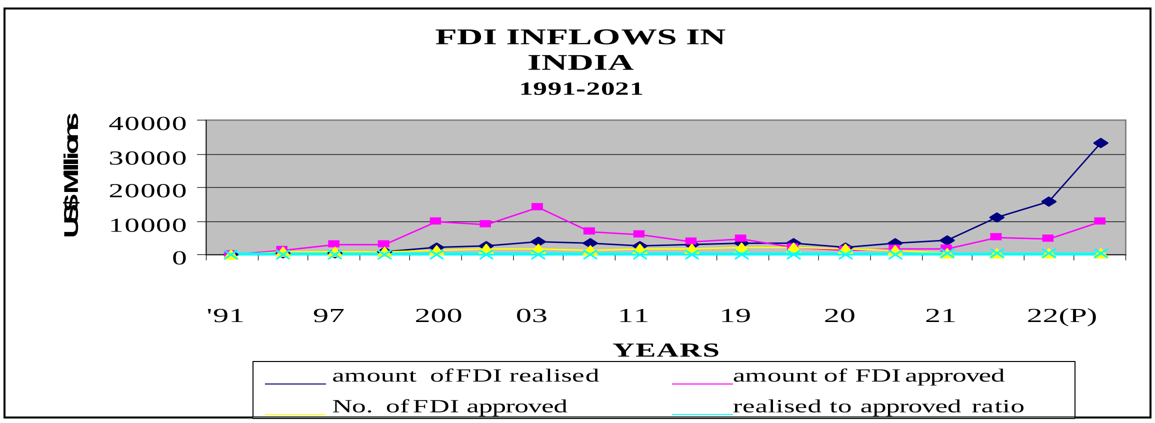
Chart (1.1)- Net FDI flow in INDIA In Post Reform ERA



Source: Ministry of promotion Board of INDIA

India's exports increased from US$ 44 bn in FY02 to US$ 163 bn in FY08 (CAGR of 24.5%). India's imports increased from US$ 51 bn in FY02 to US$ 251 bn in FY08 (CAGR of 30.3%). India ranked at 26th in world merchandise exports in 2007 with a share of 1.04 percent.

Chart (1.2)-FDI inflow in INDIA (US $ millions)



Source: Ministry of promotion Board of INDIA

Further, the explosive growth of FDI gives opportunities to Indian industry for technological upgradation, gaining access to global managerial skills and practices, optimizing utilization of human and natural resources and competing internationally with higher efficiency. Most importantly FDI is central for India's integration into global production chains which involves production by MNCs spread across locations all over the world.

1.5 THEORIES AND DETERMINANTS

This section discusses in details various FDI theories and in order to understand a country's FDI process, the general and specific determinants of FDI in India are discussed. To date the nature, causes and potential socio-economic consequences of rapid growth of FDI have been discussed in most competing and complementary theories. Academics and analysts in both Europe and the USA provided empirical basis on which to identify the explanative Varable behavioral patterns and decisions of the FDI in general, such as Coco-Cola, DuPont, General Electric, General Motors and Xerox. At the time, West scholars started to develop systematic theories to explain the origin, causes and effects of the FDI on host and home economies.

FDI theories have been split into two main heads to make them accessible for analysis: theories that assume ideal markets and theories that assume imperfect markets.

Theories Assuming Perfect Markets

- These theories include:
- Differential rate of return (ROR) approach,
- Portfolio diversification approach,
- Market size approach.

The ROR differential refers to the capital movement from low-return areas to high-return areas. Until the 1960s, FDI explanations were restricted to this standard classical theory of the movements of capital. Through these analyses, FDI has been viewed as portfolio investment and found that FDI is based solely on international interest rate differences and not on return rates. The argument was also technically unconvincing because of the implicit assumption of a common rate of return across industries and the suggestion that bilateral FDI flows between two countries were not feasible.

The market-size approach, based on neoclassical investment theory, focuses on the position of the absolute size and growth rate of the host country. The theory indicates that the size of the market and FDI are in a positive relationship. The larger the market, the more efficient resources are used by the investor, the more their potential will be to decrease production costs by taking advantage of scale savings. A survey of determinants found that the host country's market size is one of the most influential factors in attracting domestic investment. The subsequent empirical literature has provided support for the market-size hypothesis given the lack of a good theoretical context.

1.5.1Theories Assuming Imperfect Markets

Incorporating new explanations for international investment has been brought to light by failure by neoclassical theories in terms of how, where and why FDI happens and to highlight the social and economic consequences of FDI. Hymer (1976) pointed out the Value of the FDI's market structure and company specific characteristics. Some of this head's main theories include:

- Industrial Organization theory.
- Transaction Cost Approach,
- Eclectic theory of International Production,
- Product Cycle Theory,
- Oligopolistic Reaction theory.
- Currency Capitalization Approach,
- IDP Paradigm,

Microeconomic theories are essentially market structure theories that are incomplete. Hymer (1976) noted that the actual reason for the existence of MNCs are market imperfections. The strategy for the Industrial Organization is based on the notion that some firms have advantages over their rivals because of inherent market imperfections. The structure of the market and economic conditions are essential determinants of the types of firms that participate in the FDI according to this theory.

Export development and FDI are expounded on the Value of payments or the path to internationalization. Buckley and Casson (1976) are one of the main proponents of this approach. It is theory that FDI is a consequence of corporations replacing a fixed business transaction. In addition, the FDI activities of the MNCs are viewed as reacting to market imperfections, which lead to higher transaction cost.

1.6 FORMS OF FOREIGN DIRECT INVESTMENT

Foreign Direct Investment is an investment made to acquire a permanent interest in a company. Foreign direct investment also refers to a country's long-term involvement in another. It usually involves management, joint venture, and technology transfer and know-how participation. The following forms of foreign direct investment are used: Greenfield investment, brownfield investment, combination and acquisition and joint venture.

I. Greenfield Investment

Investment in a fabric, office or other physical structure or group of structures related to the company or in an area where prior facilities have not been established. In the context of Foreign Direct Investment, Greenfield Investment is often mentioned. As multinational companies join developing countries to build their new facilities / shops, green field investments occur. The host country's primary aim is Greenfield development, which creates new manufacturing capacities and jobs, move technologies which know-how and can contribute to connections with the world market. Developing countries often provide prospective businesses with tax breaks, subsidies and other opportunities to invest in green space.

II. Brownfield Investment

Brownfield development is technically acquired but it replaces the plant and facilities, workers and product line in its entirety by corporations. This is totally contrary to the expenditure by Greenfield. This is also a foreign direct investment policy. Brownfield's main advantage is the design and performance of activities that are often influenced by internal limitations and the higher risk of cost blowing.

III. Merger & Acquisition

Foreign direct investment is another type of M&A. A combination of two companies is generally a combination of a new company while an acquisition involves the acquisition by one company in which no new company is established. Foreign companies purchase or combine in this route in their host country with a established company. M&A has gained an advantage over Greenfield investment since it is cost effective when the losses are incurred and tends to promote quick market access.

IV. Joint Venture

Another popular form of external direct investment is joint venture. One of the best ways to enter new markets is a global joint venture. Either with a host country firm or a government institution, as well as with any international status host country company, a joint venture may take place. In JV, two or more Parties agree to pool their resources to achieve a certain mission and each Member shall be responsible for the resulting gains, losses and costs.

1.6.1 The Entry Route of FDI in INDIA

Before 1991, each FDI plan earned a 40% maximum foreign investment participation threshold on a case-by-case basis. India's foreign investment policy has been substantially liberal since July 1991. In compliance with liberalization laws, policies and procedures, FDI in India is taking four paths:

I. RBI (Automatic Route)

The route to promote FDI inflows was added. The Indian entity's foreign investment does not require prior approval from the government along this route. Foreign investment companies that issue shares up to the prescribed limit of foreign capital or foreign investment under that path. Transfers for the same can also be received. The RBI shall report 30 days for this reason. Automatic approval is 60 industrial categories.

II.Government (SIA/FIPB)

The Non-Automatic Route is route, which applies to FIPB schemes of a non-automatic type. The secretary of the industry is the representative of the FIPB in the organizational structure. The other leaders are the Minister of Finance, the Minister of Commerce and the Minister of Foreign Affairs. On a case by case basis, this supreme board provides clearance. These are sectors requiring industrial licenses, foreign investment exceeding 24% of equity in small-scale industries, foreign investment where foreign interest has an existing venture in certain areas of India and proposals outside the sector caps pre- determined or in sectors where FDI is usually not authorized but in some cases authorized, at GO's discretion. After consulting the ministries concerned and taking into account the investment size, the FIPB gives clearance.

III.**NRI's Investments**

A person who is a non-resident is either a citizen of India or an Indian, but is also not "resident" in India. In addition, NRIs include businesses, partner companies, trusts, companies and corporations, in which 60% of the stock shares are held by NRIs. There is a large Indian population outside. Indian government offers different possibilities for raising NRI surplus funds. You can use banking accounts like NRI, FCNR(S) and Non- Residential Ordinary Rupee (NRO) to deposit in India.

IV.Acquisition of Share

Since January 1996, a buying route has been introduced. This has been integrated into the FDI under Section29 of the FERA Act of 1973, and is now covered by Section 5 of the FEMA Act of 1999. The FDI proposals for acquiring share in existing companies are only considered in accordance with new FEMA provisions when requests made by an Indian company or related proposal are supported by a resolution by the Indian company's Management Board.

1.7 OBJECTIVE

1. To analysis the impact of FDI on Economic growth /GDP during 1991-2022.
2. To explore the factor affecting FDI inflow in India during 1991-2021.
3. To examine Foreign Direct investment (FDI) flows impact on select sectoral growth in India.

1.8 DATA

The study was based on secondary data which are collected from ministry of department of promotion board of India, World Bank report, UNCTAD report, Reserve Bank of India (RBI) annual report and some are collected from different online sources. Time series data from the year 1990-91 to 2020-21 are used in the study.

1.9METHODOLOGY

The research data is based on secondary sources. The data is collected from the World Bank, RBI, UNCTAD report. The main study period is from 1991 to 2021. There are two variables used to measure the impact. Foreign Direct Investment is taken as the independent variable whilst Gross DomesticProduct is taken as the dependent variable. Pearsons correlation is used to figure out the association between Foreign Direct Investments and Gross Domestic Product. However, Simple Regression Model is used to measure the impact of Foreign Direct Investments on Indian Economic Growth. Economic growth is measured by Gross Domestic Product. The simpleRegression Model can be mentioned as follows.

$$Y_t = \alpha + \beta X_t + \mu_t$$

$$GDP_t = \alpha + \beta FDI_t + \mu_t$$

Y_t = Dependent Variable (GDP according to this study)

α = Autonomous Variable

β = Regression Coefficient

X_t = Independent Variable (FDI according to this study)

μ_t = Error term

1.10 HYPOTHESIS

$H0_1$: There is no select economic factors impact on Foreign Direct investment (FDI) inflows in India.

$H0_2$: There is no There is no statistically significant association between FDI and GDP.

$H0_3$: There is no impact of Foreign Direct investment (FDI) on selected Sectoral growth in India.

1.11 CHAPTER LAYOUT

- The first chapter deals with the introduction which given idea about the importance of Foreign Direct Investment (FDI) and its role of Economic Growth, sources of Foreign capital, Factor effecting The FDI, Current scenario of FDI inflow in India, FDI inflow in post reform era, theories and determent, forms of FDI, The entry route of FDI in India, objective, data, methodology and variable used in the study.

- The second chapter deliberates with review of existing literature which study about the impact of FDI on economic growth in India, impact of FDI in different sector.

- The third chapter basically explain the trends and pattern of FDI inflow in world level, trends and pattern of FDI inflow in Asia and trends and pattern of FDI inflow in India.

- The fourth chapter deliberates with impact of FDI on economics growth in India, Country wise FDI net inflow, Country wise net inflow in the percentage of GDP and growth and treads of FDI inflow India and China.

- The fifth chapter dells with treads and pattern of FDI inflow at sectoral level, share of top investing country FDI inflows, FDI equity inflow within state and Financial position In India.

- The six chapters deliberate with FDI policy and Suggestion of the government of India.
- The seventh chapter basically deals with conclusion and measure finding of the research paper.

CHAPTER - II

CHAPTER – II

REVIEW OF LITERATURE

2.1 REVIEW OF LITERATURE

2.1.1Temporal studies

2.1.2Inter – Country studies

2.1.3Inter – Industry studies

2.1.4Studies in Indian Context

2.2 RESEARCH GAP

CHAPTER – II

2.1 REVIEW OF LITERATURE

The comprehensive literature centered on economies pertaining to empirical findings and theoretical rationale tends to demonstrate that FDI is necessary for sustained economic growth and development of any economy in this era of globalization. The reviewed literature is divided under the following heads:

- **Temporal studies**
- **Inter – Country studies**
- **Inter – Industry studies**
- **Studies in Indian Context**

2.1.1 TEMPORAL STUDIES

Dunning John H. (2004), in his study "Institutional Reform, FDI and European Transition Economics" studied the significance of institutional infrastructure and development as a determinant of FDI inflows into the European Transition Economies. The study examines the critical role of the institutional environment in reducing the transaction costs of both domestic and cross border business activity. By setting up an analytical framework the study identifies the determinants of FDI, and how these had changed over recent years.

The Japan Bank for International Cooperation (2002),The paper made an attemptto study on Key FDI related issues, The inflows of global FDI have increased with cross border mergers and acquisitions among OECD countries triggered by policy initiatives like implementation of E.U's single market program and the creation of NAFTA, ASEAN and South Asia began cross border mergers and acquisitions after their financialcrises.

D'Souza (2002),The paper examined how well public sector banks have done and argued that the efficiency of the public sector banks has declined during the 1990s when measured by the spread/working fund ratio. They can examine the efficiency of the banking system using two measures - the spread/working funds ratio and the turn- over/employee ratio. With reference to the spread/working funds ratio the efficiency of the commercial banks as a whole has declined.

Anderson and Hainaut (2004) ,pointed out that while looking for evidence regarding a possible relationship between foreign direct investment and employment, particularly between outflows and employment in the source country and response to outflows. They also find out that high labour cost encourage outflow and discourage inflows and that effect can be reinforced by exchange rate movement. The principle determination of FDI inflows are prior trade patterns, its related investment and the scope for cross border mergers and acquisitions.

2.1.2 INTER – COUNTRY STUDIES

Bhagwati J.N.(1978), in his study "Anatomy and Consequences of Exchange Control Regimes" analyzed the impact of FDI on international trade. He concluded that countries actively pursuing export led growth strategy can reap enormous benefits from FDI.

Crespo Nuno and Fontoura Paula Maria (2007), in their paper "Determinant Factors of FDI Spillovers – What Do We Rally Know?" analyze the factors determining the existence, dimensions and sign of FDI spillovers. They identify that FDI spillovers depend on many factors like absorptive capacities of domestic firms and regions, the technological gap, or the export capacity.

Gazioglou S. and McCausland W.D. (2000), in their study "An International Economic Analysis of FDI and International Indebtedness" developed a micro – foundations framework of analysis of FDI and integrated it into a macro level analysis. They highlighted the importance of profit repatriation in generating different effects of FDI on net international debt, trade and real exchange rate in developed economies compared to less developed economies.

Lisa De Propis and Nigel Driffield (2006), in their study "The Importance of Cluster for Spillovers from Foreign Direct Investment and Technology Sourcing", examine the link between cluster development and inward foreign direct investment. They concluded that firms in clusters gain significantly from FDI in their region, both within the industry of the domestic firm and across other industries in the region.

Okuda Satoru (1994), in his study "Taiwan's Trade and FDI policies and their effect on Productivity Growth" reviewed the course of Taiwan's trade and FDI policies. The purpose of the study was to examine how these policies affected productivity of Taiwan's manufacturing sector. As an indicator of productivity, TEP indices of the Taiwan manufacturing were calculated at the subsector level. It is find out that the TEP growth for manufacturing as a whole was 2.6 per cent per annum the electronics and machinery maintained high productivity performance while examining the relationship between TEP and trade and FDI liberalization policies was examined. The study concludes that the policies of the Taiwan government have generally been relevant.

Rydqvist Johan (2005), in his work "FDI and Currency Crisis: Currency Crisis and the inflow of Foreign Direct Investment" analyse if there are any changes in the flow of FDI before, during and after a currency crisis. The study found that no similarities in regions or year of occurrence of the currency crisis. The depth, length and structure of each currency crisis together with using the right definition of a currency crisis are two important factors relating to the outcomes in this study.

Thai Tri Do (2005), in his study, "The impact of Foreign Direct Investment and openness on Vietnamese economy" examines the impact of FDI on Vietnamese economy by using Partial Adjustment Model and time series data from 1976 to 2004. FDI is shown to have not only short run but also long run effect on GDP of Vietnam. The study also examines the impact of trade openness on GDP and it is found that trade is stronger than that of FDI.

Alhijazi, Tahya Z.D (1999), in his work, "Developing Countries and Foreign Direct Investment" analysed the pros and cons of FDI for developing countries and other interested parties. This thesis scrutinizes the regulation of FDI as a means to balance the interests of the concerned parties, giving an assessment of the balance of interests in some existing and potential FDI regulations. The study also highlights the case against the deregulation of FDI and its consequences for developing countries. The study concludes by formulating regulatory FDI guidelines for developing countries.

Jainta Chomtoranin (2004), in her study, “A Comparative Analysis of Japanese and American Foreign Direct Investment in Thailand” assesses the determinants of Japanese and American FDI in Thailand during 1970-2000. In this analysis, the short and long-term determinants of both FDI are estimated. This study concludes that, in the short and the long run, Japanese FDI is found to be driven by trade factors and the yen appreciation. While the American FDI is driven by market factor, specifically the income level of Thai people. Japanese FDI is trade – oriented, whereas the American FDI is market – seeking oriented.

Khor Chia Boon (2001), in his study, “Foreign Direct Investment and Economic Growth” investigates the casual relationship between FDI and economic growth. The findings of this thesis are that bidirectional causality exist, between FDI and economic growth in Malaysia i.e. while growth in GDP attracts FDI, FDI also contributes to an increase in output. FDI has played a key role in the diversification of the Malaysian economy, as a result of which the economy is no longer precariously dependent on a few primarily commodities, with the manufacturing sector as the main engine of growth.

2.1.3 INTER – INDUSTRY STUDIES

Park Jongsoo (2004), conducted a study on “Korean Perspective on FDI in India: Hyundai Motors’ Industrial Cluster” indicates that industrial clusters are playing an important role in economic activity. The key to promoting FDI inflows into India may lie in industries and products that are technology – intensive and have economies of scale and significant domestic content.

Sarma EAS (2005), in his paper ‘Need for Caution in Retail FDI” examines the constraints faced by traditional retailers in the supply chain and give an emphasis on establishment of a package of safety nets as Thailand has done. India should also draw lessons from restrictions placed on the expansion of organized retailing, in terms of sourcing, capital requirement, zoning etc, in other Asian countries. The article comments on the retail FDI report that as commissioned by the Department of Consumer Affairs and suggests the need for a more comprehensive study.

2.1.4 STUDIES IN INDIAN CONTEXT

Nayak (2004), found the reason for the same is the indifferent attitude of Canadian towards India and lack of information of investment opportunities in India are the important contributory factors for such as unhealthy trends in economic relation between India and Canada. He suggested some measures such as publishing of regular documents like newsletter that would highlight opportunities in India and a detailed focus on India's area of strength and opportunities so that Canadian firms could come forward and discuss their areas of expertise would go long way in enhancing Canadian FDI in India.

Manmohan Singh(2005), Prime Minister of India, quoted in newspaper reports, indicated that the expanding investment in infrastructure could play an important counter cyclical rose projects and programmers were to be reviewed in the area of infrastructure development, including pure public private partnerships to ensure that their implementation was expedited and did not suffer from the fund crunch.

Urjit R. Patel (1997) ,The paper discussed emerging reforms in Indian banking in the international perspectives and stressed the need of some important reforms to be implemented to put Indian banking on a sound footing for increasing global integration of the Indian economy, both real and financial terms. The policies objectives drawn from international experience & measures such as maintaining a higher capital adequacy ratio; facilitating restructuring of the sector by formulating an exit and privatization policy & argues that the benefit from having a healthy domestic banking system is undoubtedly considerable in terms of efficient domestic financial intermediation.

Raju (2005), The paper examined the issues of debates in banking. He argued that the richness of data and analysis presented in the banking industry issue (March 19) throws up several issues that deserve further study. it was hoped that banks would take advantage of newly emerging technologies to secure a rural clientele.

Nachane (1999), The paper highlighted the problems and prospects of capital adequacy gaps for banks. He argued that the main purpose of bank regulation is the maintenance of a sound banking system, which is usually narrowly interpreted to mean 'prevention of bank failure'. Alternate arrangements such as Value-at-Risk models and Pre-Commitment models are then taken up for examination. But a headlong rush along the Basle path of inflexible CARs, which the Narasimhan II Committee seems to advocate, is equally inadvisable. After all the chairman of the Basle Committee There can be no certainty, no dogma about capital adequacy"

Joshi (1999), The paper analyzed other side of coin of banking sector reforms argue that the flipside of banking sector reforms At the end of June 1991there were 24 foreign banks operating in India with a branch network of 140. At the end of June 1998, the number of foreign banks has substantially increased to 42 and their branch network also has gone up to 182. **Bhattacharyya (2002),** considered FDI to be a major stimulus to economic growth in developing country as it has the ability to deal with major obstacles such as shortage of financial resources and technology & skill. Consequently it has become the centre of attention for the policy makers in the low income countries in particular. So FDI may be considered as having a mixed effect on the Indian economy.

Mishra and Ramayana (2002), considered that the trends of FDI has to be reversed failing with the Indian industry sector will lose much in the present era of globalization and competition and he recommends that efforts should be immediately made not only inremoving the imperfection and making the policy framework more consistent, transparent and rule based but also in creating an investor friendly environment by eliminating different obstacles to proper implementation of these measures as well as providing necessary infrastructure facilities .

Raghavendra Jha(2003), This paper titled “Economic and Political Determinant of Direct Investments analyzed the determinants of the FDI in eighty less developed countries. They analyzed four different models (Economic, Political, Politico economic and Amalgamated) explaining the flow of the FDI which were econometrically estimatedand compared with export forecasts. Among the four, the politico-economic model was found to be the best. In order to test the stability of the estimated parameter, the estimateswere undertaken for three different years.

Koji LaMotte (2003), argued that the complex linkages between the activities of the MNC's and the policies of host developing countries & finds that one way to improve human capital formation and attract more FDI is to provide a strong incentive for MNC's and investment promotion agencies to participate in formal education and vocational training for workers employed with domestic firms.

Nagaraj (2003), The study made an attempt to document the trends in Recognizing that growth in infrastructure will be inhibited if the government of India has to rely only on state funds, it now involves the private sector in infrastructure development and marketing through agreements known as concession agreements which grant private entities right to build, own and/or operate an infrastructure service and to receive revenues generated through the ownership of assets vest with the government.

Mathur (2004), The paper examined the role of state in regulation of Indian financialsector. An assessment based on standard parameters indicates that all regulatory agencies have the state's presence. Also, an assessment made on tie basis of international codesand standards shows a high degree of compliance of supervisory standards in the bankingsegment & paper assessed the role of state in regulating the financial sector in India. Therationale for the state to have a specified role in regulating the financial sector is well established. In India, as in other countries, separate regulatory agencies exist for different segments of the financial sector.

2.2 RESEARCH GAP

The study had made use of the findings and observations of the researchers in their previous research studies. In foreign direct investment area most of the studies had attempted to look at the regulatory bottle necks. Few studies have considered probing into the policy impact on FDI flows. Few studies considered the investment decisions, technological issues, economic problems related to financial mobilization through the foreign direct investments.

In general, the studies of international, national and local are already made had not given full justice to the growth of flows, issues and problems related to foreign direct investments with the help of reasonably large samples. The present study is making an attempt to fill this gap in the existing literature on foreign direct investment. This study had concentrated its focus on the macro economic factors impact on the Indian economy with the sectoral growth. In this respect, this study had become important as compared tothe earlier studies which have been carried out.

CHAPTER - III

CHAPTER – III

TRENDS AND PATTERENS OF FDI INFLOWS IN INDIA

3.1 TREANDS AND PATERN OF FDI INFLOWS IN THE WORLD

3.2 TREANDS AND PATERN OF FDI INFLOWS IN ASIA

3.3 TREANDS AND PATERN OF FDI INFLOWS IN INDIA

CHAPTER-3

TRENDS AND PATTERENS OF FDI INFLOWS

INTRODUCTION

One of the most prominent and striking feature of today's globalised world is the exponential growth of FDI in both developed and developing countries. In the last two decades the pace of FDI flows are rising faster than almost all other indicators of economic activity worldwide. Developing countries, in particular, considered FDI as the safest type of external finance as it not only supplement domestic savings, foreign reserves but promotes growth even more through spillovers of technology, skills, increased innovative capacity, and domestic competition. Now a days, FDI has become an instrument of international economic integration.

Located in South Asia, India is the 7th largest, and the 2nd most populated country in the world. India has long been known for the diversity of its culture, for the inclusiveness of its people and for the convergence of geography. Today, the world's largest democracy has come to the forefront as a global resource for industry in manufacturing and services. Its pool of technical skills, its base of an English – speaking populace with an increasing disposable income and its burgeoning market has all combined to enable India emerge as a viable partner to global industry. Recently, investment opportunities in India are at a peak.

This chapter covers the trends and patterns of FDI inflows at World, Asian and Indian level during 1991-2020.

3.1 TRENDS AND PATTERNS OF FDI FLOW IN THE WORLD

The liberalization of trade, capital markets, breaking of business barriers, technological advancements, and the growing internationalization of goods, services, or ideas over the past two decades makes the world economies the globalised one. Consequently, with large domestic market, low labour costs, cheap and skilled labour, high returns to investment, developing countries now have a significant impact on the global economy, particularly in the economics of the industrialized states. Trends in World FDI flows (Table -3.1,3.2 and Chart-3.1,3.2) depict that developing countries makes their presence felt by receiving a considerable chunk of FDI inflows. Developing economies share in total FDI inflows rose from 26% in 1980 to 40% in 1997.

Table(3.1)-FDI INFLOWS IN THE WORLD

(in US $ Billion in %)

Years/ Countries	1990-95	96	97	98	99	2000	2001	2002	2003	2004	2005	2006	2007
World FDI	225.3	386.1	478.1	694.5	1088.3	1492	735.1	716.1	632.6	648.1	958.7	1411	1833.3
Developed Economies share in world FDI	64.4	57.1	56	69.7	77.1	82.2	68.4	76.5	69.9	58.6	63.8	66.7	68
Developing Economies share in world FDI	33	39.5	39.9	27	20.7	15.9	27.9	21.7	26.3	36	33	29.3	27.3

Source: compiled from the various issues of WIR, UNCTAD, World Bank

However, the share during 1998 to 2003 fell considerably but rose in 2004, again in 2006 and 2007 it reduces to 29% to 27% due to global economic meltdown. Specifically, developing Asia received 16 %, Latin America and the Caribbean 8.7 %, and Africa 2 %. On the other hand, developed economies show an increasing upward trend of FDI inflows, while developing economies show a downward trend of FDI inflows after 1995.

Table-3.2

FDI INFLOWS IN THE WORLD

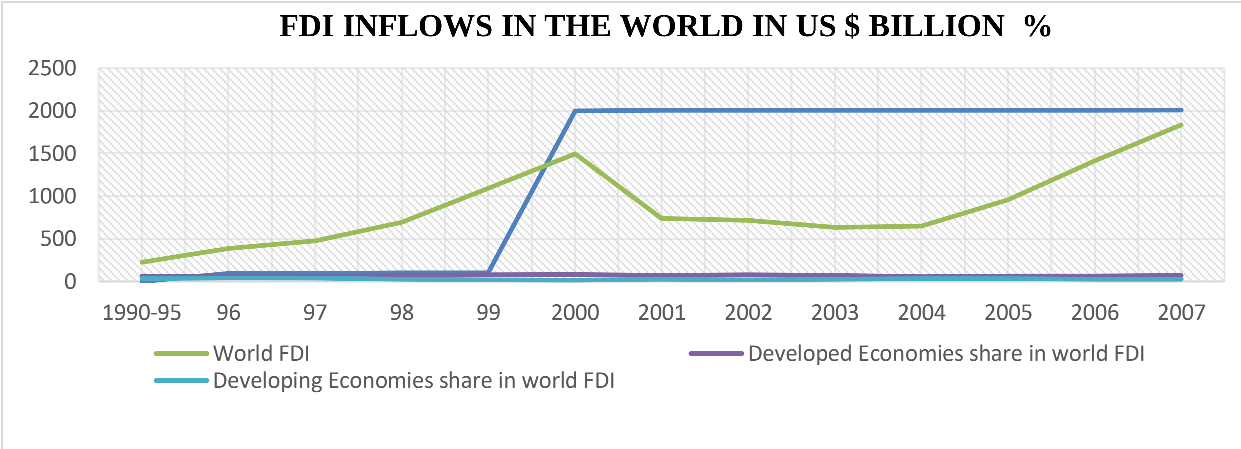
Years/ Countries	2008	2009	2010	2011	2012	2013	2014	2015	2016	2019	2020	2021
World FDI	1 771	1 114	1 409	1 652	1 351	1 476	1 228	1 774	1 413	1 394	929	1 647
Developed Economies share in world FDI	1 018	566	696	820	561	697	499	984	683	643	394	995
Developing Economies share in world FDI	*630*	478	637	735	703	324	289	752	696	695	535	652

(amount in US $ Billionin)

Source: compiled from the various issues of WIR, UNCTAD, World Bank

In the year 2008 world FDI flow was 1771 billion US dollar, where developed economics share was 1018 billion US dollar and developing economics was 630 US billion US dollar. In 2011 the total FDI flow was 1652 US billion dollar, where developed economics share was 820 US billion dollar and developing economics was 735 US billion dollar. In 2015 the total FDI flow was 1774 billion US dollar where share of developed economy was 984 billion US dollar and developing economic was 752 US billion US dollar. In 2020 the total FDI flow was 929 US billion dollar due to the COVID pandemic FDI flow was reduces where as the share of developed economics was 394 us billion dollar and developing country was 535 US billion dollar in 2021 the total FDI flow was 1647 US billion dollar ,the share of developed economy was 995 US billion dollar and the developing economy was 652 US billon dollar.

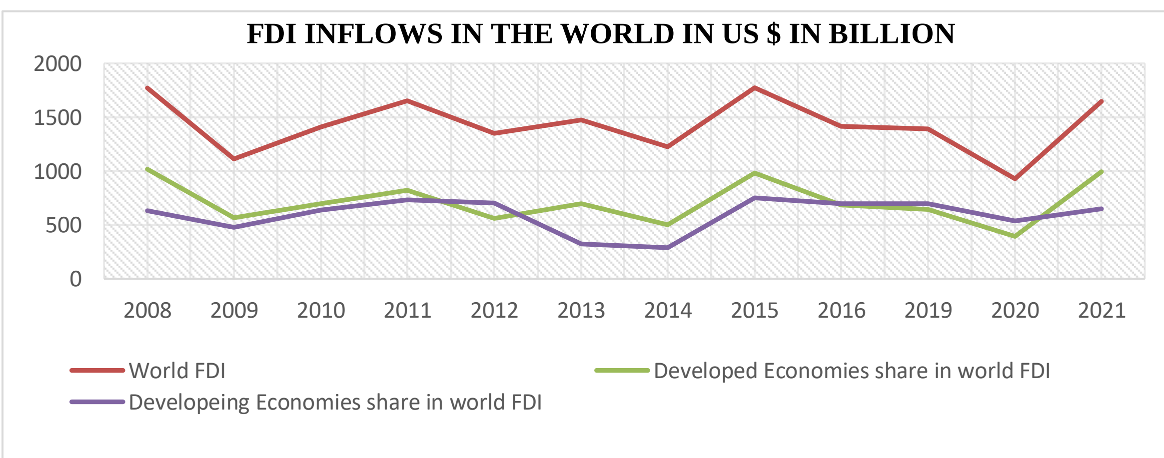
Chart(3.1):-FDI inflow in world US $ billion %



Source: compiled from the various issues of WIR, UNCTAD, World Bank

In chart 3.1 shows the FDI inflow in the world in US billion in percentage . the share during 1998 to 2003 fell considerably but rose in 2004, again in 2006 and 2007 it reduces to 29% to 27% due to global economic meltdown. Specifically, developing Asia received 16 %, Latin America and the Caribbean 8.7 %, and Africa 2 %. On the other hand, developed economies show an increasing upward trend of FDI inflows, while developing economies show a downward trend of FDI inflows after 1995.

Chart(3.2):- FDI inflow in world US $ billion



Source: compiled from the various issues of WIR, UNCTAD, World Bank.

In chart 3.2 shows the FDI inflow in the world in US billion . In the year 2008 world FDI flow was 1771 billion US dollar, where developed economics share was 1018 billion US dollar and developing economics was 630 US billion US dollar. In 2011 the total FDI flow was 1652 US billion dollar, where developed economics share was 820 US billion dollar and developing economics was 735 US billion dollar. In 2015 the total FDI flow was 1774 billion US dollar where share of developed economy was 984 billion US dollar and developing economic was 752 US billion US dollar. In 2020 the total FDI flow was 929 US billion dollar due to the COVID pandemic FDI flow was reduces where as the share of developed economics was 394 us billion dollar and developing country was 535 US billion dollar in 2021 the total FDI flow was 1647 US billion dollar ,the share of developed economy was 995 US billion dollar and the developing economy was 652 US billon dollar. So in the chart shows that over the period of time the share of FDI in development country increases with compare to the developed country.

3.2 TRENDS AND PATTERNS OF FDI FLOW IN ASIA

In the South, East, and South – East Asia block India is at 3rd place after China and Singapore (Table- 3.4, Chart- 3.4). South, East, South – East Asia block registered an annual growth rate of 19% in 2007 over 2006 and compound annual growth rate of 17% on an annualized basis during 1991-2007. India’s share has increased from 1.5% in 2000- 10 to 9.2% in 2020 while China’s share was decreased to 33 per cent in 2020 from 43.4 per cent in 1990-95. It is found that there is an increment of 5.8% in case of India while there is a decrement of 9.8% in case of China.

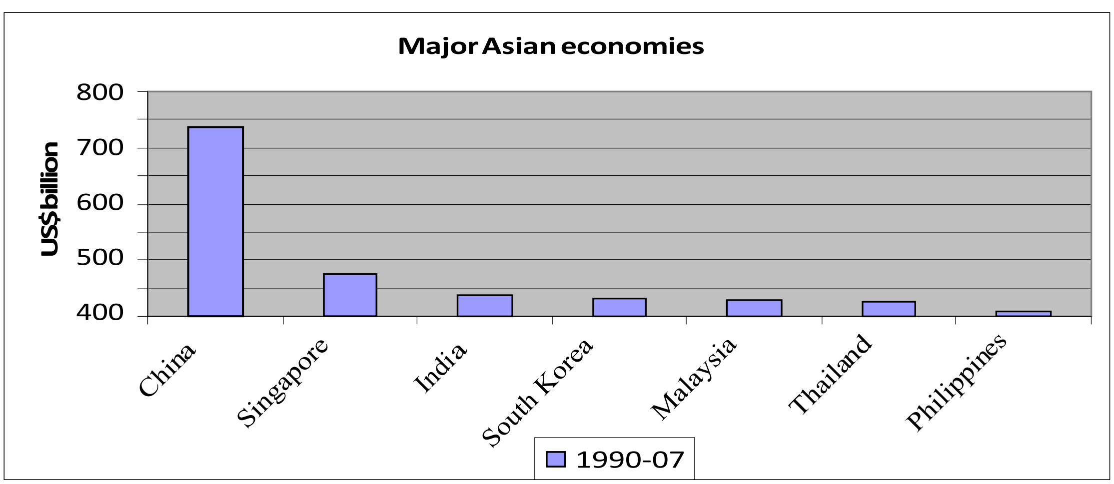
Table (3.3) -EMERGING ECONOMIES OF ASIA COUNTRY

amount in US $ Billion

COUNTRY	2000-2010	2015-2020
CHINA	188	483.1
SINGAPORE	43.3	108
INDIA	12	63.3
SOUTH KOREA	21	41.5
MALAYSIA	25	33.1
PHILLIPPINES	6.1	13.3
THAILAND	17	37.2
ALL DEVELOPING COUNTRIES	831	2227.1
INDIA's SHARE (%)	1.4	2.8
CHINA's SHARE (%)	22.6	21.7

Source: compiled from the various issues of WIR, UNCTA

Chart (3.3) – FDI inflow in Asian country.



Source: compiled from the various issues of WIR, UNCTAD

It is evident from (Table-3.3) that India's share among developing countries in FDI inflow was 1.4% in the last decade and 2.8% in 2015-2020 while China's share was 22.6% in 2000-2010 and 21.7 per cent in 2015-20. When the shares of these two countries are compared it is found that China's share is 21.7% in the present decade while India's share is miniscule (i.e. 2.8%).

3.3TRENDS AND PATTERNS OF FDI FLOW IN INDIA

India is the 7th largest, and the 2nd most populated country in the world. India has long been known for the diversity of its culture, for the inclusiveness of its people and for the convergence of geography. Today, the world's largest democracy has come to the forefront as a global resource for industry in manufacturing and services. Itspool of technical skills, its base of an English – speaking populace with an increasing disposable income and its burgeoning market has all combined to enable India emerge as a viable partner to global industry. Recently, investment opportunities in India are at a peak.

As usual, the capital flows from developed countries to developing countries. Modern world economy cannot develop successfully without foreign investment. A great number of countries invest their funds to the economy of other countries having a certain income and developing certain branches of industries of such countries. Due to received capital the country receives an opportunity to renew and develop all necessary branches of industries, to increase the effectiveness of production and produce competitive goods and services. Foreign investment is a predominant and vital factor in influencing the global economic development. Infrastructure development has benefitted from these enormous changes, with various sectors, including telecommunications, ports and roads, seeing an increase in the number of projects being initiated through the involvement of foreign investors.

Table(3.4)- Financial year wise FDI inflow in INDIA. As per International Best Practices

S. No.	Financial Year (April-March)	FOREIGN DIRECT INVESTMENT (FDI): Equity: FIPB Route/ RBI's Automatic Route/ Acquisition Route	Equity: Equity capital of unincorporated bodies	Reinvested earnings +	Other capital +	FDI FLOWS INTO INDIA: Total FDI Flows	FDI FLOWS INTO INDIA: %age growth over previous year (in US$ terms)	Investment by FII's Foreign Institutional Investors Fund (net)
FINANCIAL YEARS 1991 TO 2021-22						**(Amount in US $ million)**		
1.	**August 1991 – March 2000**	15483	--	--	--	**15483**	--	--
2.	**2000-01**	2,339	61	1,350	279	**4,029**	-	**1,847**
3.	**2001-02**	3,904	191	1,645	390	**6,130**	**(+) 52 %**	**1,505**
4.	**2002-03**	2,574	190	1,833	438	**5,035**	**(-) 18 %**	**377**
5.	**2003-04**	2,197	32	1,460	633	**4,322**	**(-) 14 %**	**10,918**
6.	**2004-05**	3,250	528	1,904	369	**6,051**	**(+) 40 %**	**8,686**
7.	**2005-06**	5,540	435	2,760	226	**8,961**	**(+) 48 %**	**9,926**
8.	**2006-07**	15,585	896	5,828	517	**22,826**	**(+) 155 %**	**3,225**
9.	**2007-08**	24,573	2,291	7,679	300	**34,843**	**(+) 53 %**	**20,328**
10.	**2008-09**	31,364	702	9,030	777	**41,873**	**(+) 20 %**	**(-) 15,017**
11.	**2009-10**	25,606	1,540	8,668	1,931	**37,745**	**(-) 10 %**	**29,048**
12.	**2010-11**	21,376	874	11,939	658	**34,847**	**(-) 08 %**	**29,422**
13.	**2011-12**	34,833	1,022	8,206	2,495	**46,556**	**(+) 34 %**	**16,812**
14.	**2012-13**	21,825	1,059	9,880	1,534	**34,298**	**(-) 26%**	**27,582**
15.	**2013-14**	24,299	975	8,978	1,794	**36,046**	**(+) 5%**	**5,009**
16.	**2014-15**	30,933	978	9,988	3,249	**45,148**	**(+) 25%**	**40,923**
17.	**2015-16**	40,001	1,111	10,413	4,034	**55,559**	**(+) 23%**	**(-) 4,016**
18.	**2016-17**	43,478	1,223	12,343	3,176	**60,220**	**(+) 8%**	**7,735**
19.	**2017-18**	44,857	664	12,542	2,911	**60,974**	**(+) 1%**	**22,165**
20.	**2018-19**	44,366	689	13,672	3,274	62,001	**(+) 2%**	**(-) 2,225**
21.	**2019-20**	**49,977**	**1,226**	**14,052**	**8,200**	73,455	**(+) 18%**	**247**
22.	**2020-21**	**59,636**	**1,452**	**16,935**	**3,950**	81,973	**(+) 10%**	**38,725**

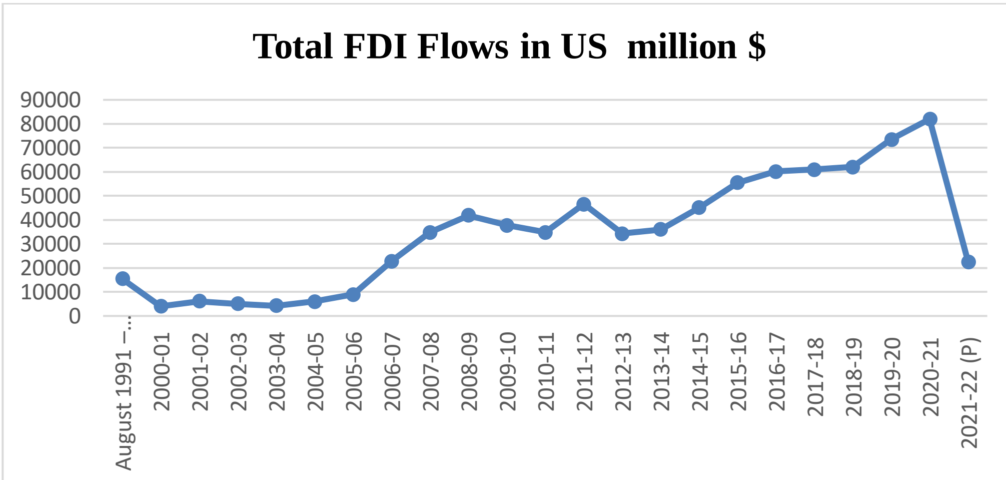
23.	**2021-22 (P)**	**17,567**	**335**	**3,908**	**715**	**22,525**	**-**	**159**
CUMULATIVE TOTAL		**550,080**	**19,005**	**175,136**	**42,132**	**786,352**	**-**	**253,686**

Source: Department of Industrial Policy & Promotion BOARD OF india, Government of India, Ministry of Commerce and Industry.

In August 1991 to March 2000 total FDI flow was 15483 US $ million. In 2000-01 the total FDI flow was 4029 US $ million, where as FII'S investment was 1847 US $ Million. In 2002-03 the total FDI flow was 5035 US $ million where as the FII'S invest was 377 US $ million and the percentage growth of previous year was (-)18% . in 2004-05 the total FDI flow was 6051 US $ million , where FII'S investment was 8686 US $ million, the percentage growth of previous year was (+)40% . In 2005-06 the total FDI flow was 8961 US $ million, where FII'S investment was 9926 US $ million, the percentage growth of previous year was (+) 48%. In 2007-08 the total FDI flow was 34843 US $ million , where FII'S investment was 20328 US $ million, the percentage growth of previous year was (+) 53%. In 2010-11 the total FDI flow was 34847 US $ million , where FII'S investment was 29422 US $ million, the percentage growth of previous year was (-) 08%. In 2013-14 the total FDI flow was 36046 US $ million , where FII'S investment was 5009 US $ million, the percentage growth of previous year was (+) 5%. In 2015-16 the total FDI flow was 55559 US $ million , where FII'S investment was 4016 US $ million, the percentage growth of previous year was (+) 23%. In 2017-18 the total FDI flow was 60974 US $ million , where FII'S investment was 22165 US $ million, the percentage growth of previous year was (+) 1%. In 2018-19 the total FDI flow was 62001 US $ million , where FII'S investment was 2225 US $ million, the percentage growth of previous year was (+) 2%. In 2019-20 the total FDI flow was 73455 US $ million , where FII'S investment was 247 US $ million, the percentage growth of previous year was (+) 18%. In 2020-21 the total FDI flow was 81973 US $ million , where FII'S investment was 38725 US $ million, the percentage growth of previous year was (+) 10%. In 2021-22(P) the total FDI flow was 22525 US $ million , where

FII’S investment was 159 US $ million. The total FDI flow was 786352 US $ million, where as investment of FII’S fund(net) was 253686 US dollar million.

Chart (3.4) – Financial year wise total FDI flows in INDIA. As per International Best Practices



Source: Department of Industrial Policy & Promotion BOARD OF india, Government of India, Ministry of Commerce and Industry.

In the fig show the financial year (August 1991-March 2022) wise total FDI flows in US $ million. In August 1991 to March 2000 total FDI flow was 15483 US $ million. In 2000-01 the total FDI flow was 4029 US $ million. In 2002-03 the total FDI flow was 5035 US $ million and the percentage growth of previous year was (-)18% . in 2004-05 the total FDI flow was 6051 US $ million the percentage growth of previous year was (+)40% . In 2005-06 the total FDI flow was 8961 US $ million and the percentage growth of previous year was (+) 48%. In 2007-08 the total FDI flow was 34843 US $ million and the percentage growth of previous year was (+) 53%. In 2010-11 the total FDI flow was 34847 US $ million and the percentage growth of previous year was (-) 08%. In 2013-14 the total FDI flow was 36046 US $ million and the percentage growth of previous year was (+) 5%. In 2015-16 the total FDI flow was 55559 US $ million and the percentage growth of previous year was (+) 23%. In 2017-18 the total FDI flow was 60974 US $ million and the percentage growth of previous year was (+) 1%. In 2018-19 the total FDI flow was 62001 US $ million and the percentage growth of previous year was (+) 2%. In 2019-20 the total FDI flow was 73455 US $ million and the percentage growth of previous year was (+) 18%. In 2020-21 the total FDI flow was 81973 US $ million and the percentage growth of previous year was (+) 10%. In 2021-22(P) the total FDI flow was 22525 US $ million The total

FDI flow was 786352 US $ million, where as investment of FII'S fund(net) was 253686 US dollar million. So, in the chart we see that in the pandemic situation the FDI flow was decreses otherwise it increases over the time period.

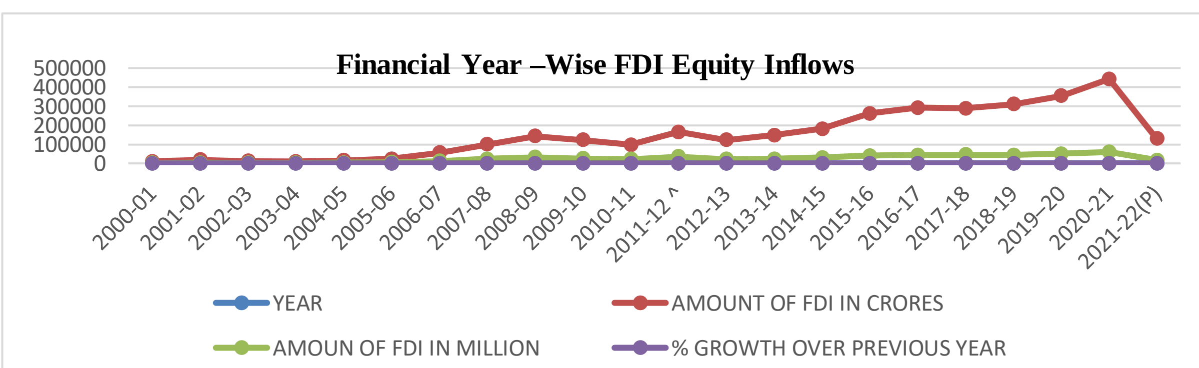
Table (3.5): Financial Year Wise FDI Equity Inflows (amount in Rs Creores and US $ million)

S. No.	***Financial Year (April – March)***	***Amount of FDI Inflows***		***%age growth over previous year(in terms of US $)***
FINANCIAL YEARS 2000-01 TO 2021-22		***In Rs Crores***	***In US $ Million***	
1.	**2000-01**	10,733	2,463	----
2.	**2001-02**	18,654	4,065	(+)65 %
3.	**2002-03**	12,871	2,705	(-)33 %
4.	**2003-04**	10,064	2,188	(-)19 %
5.	**2004-05**	14,653	3,219	(+)47 %
6.	**2005-06**	24,584	5,540	(+)72 %
7.	**2006-07**	56,390	12,492	(+)125 %
8.	**2007-08**	98,642	24,575	(+)97 %
9.	**2008-09**	142,829	31,396	(+)28 %
10.	**2009-10**	123,120	25,834	(-)18 %
11.	**2010-11**	97,320	21,383	(-)17 %
12.	**2011-12**	165,146	35,121	(+)64 %
13.	**2012-13**	121,907	22,423	(-)36 %
14.	**2013-14**	147,518	24,299	(+)8%
15.	**2014-15**	181,682	29,737	(+)22%
16.	**2015-16**	262,322	40,001	(+)35%
17.	**2016-17**	291,696	43,478	(+)9%
18.	**2017-18**	288,889	44,857	(+)3%
19.	**2018-19**	309,867	44,366	(-)1%
20.	**2019–20**	353,558	49,977	(+)13%
21.	**2020-21**	4,42,569	59,636	(+)19%
22.	**2021-22(P)**	**1,29,320**	**17,567**	**-**
CUMULATIVE TOTAL		**33,04,334**	**547,322**	

Source: Department of Industrial Policy & Promotion, Government of India, Ministry of Commerce and Industry.

In the above table show the financial year wise FDI equity inflow 2000-01 to 2021-22. In the year 2000-01 amount of FDI in crores was 10,733, in US $ million was,2,463 . In the year 2001-02 amount of FDI in crores was 18,654, in US $ million was 4,065 and the growth over previous years in terms of US $ was (+)65%. In the year 2003-04 amount of FDI in crores was 10,064, in US $ million was 2,188 and the growth over previous years decreses, it was in terms of US $ (-)19% . In the year 2005-06 amount of FDI in crores was 24,584, in US $ million was 5,540 and the growth over previous years in terms of US $ was (+)72%. In the year 2008-09 amount of FDI in crores was 142,829, in US $ million was 31,396 and the growth over previouSyears in terms of US $ was(+)28%. In the year 2010-11 amount of FDI in crores was 97,320, in US $ million was 21,383 and the growth over previous years in terms of US $ was(-)17% . In the year 2014-15 amount of FDI in crores was 181,682, in US $ million was 29,737 and the growth over previous years in terms of US $ was (+)22% . In the year 2017-18 amount of FDI in crores was 288,889, in US $ million was 44,857 and the growth over previous years in terms of US $ was (+)3%. In the year 2019-20 amount of FDI in crores was 353,558 , in US $ million was 49,977 and the growth over previous years in terms of US $ was(+)13%. In the year 2020-21 amount of FDI in crores was 442,569, in US $ million was 59,636 and the growth over previous years in terms of US $ was (+)19% . In the year 2021-22(P) amount of FDI in crores was 129,320 , in US $ million was 17,567 . The total FDI flow in crores was 33,04,334 and US $ million was 547,322.

Chart (3.5):- Financial year wise FDI equity inflow



Source: Department of Industrial Policy & Promotion, Government of India, Ministry of Commerce and Industry.

In the chart show the financial year wise equity inflows in India. The horizontal axis present the year of inflows and v article axis present the amount of inflow. There are the three sires amount of FDI inflow in crore, amount of FDI inflow in US $ million and percentage growth over the previous year. In the year 2000-01 amount of FDI in crores was 10,733, in US $ million was,2,463 . In the year 2001-02 amount of FDI in crores was 18,654, in US $ million was 4,065Chart(3.6)- Financial Year wise FDI equity Inflows and FDI in crores was 10,064, in US $ million was 2,188 and the growth over previous years decreses, it was in terms of US $ (-)19% . In the year 2005-06 amount of FDI in crores was 24,584, in US $ million was 5,540 and the growth over previous years in terms of US $ was (+)72%. %. In the year 2010-11 amount of FDI in crores was 97,320, in US $ million was 21,383 and the growth over previous years in terms of US $ was(-)17% . In the year 2014-15 amount of FDI in crores was 181,682, in US $ million was 29,737 and the growth over previous years in terms of US $ was (+)22% . In the year 2017-18 amount of FDI in crores was 288,889, in US $ million was 44,857 and the growth over previous years in terms of US $ was (+)3%. In the year 2019-20 amount of FDI in crores was 353,558 , in US $ million was 49,977 and the growth over previous years in terms of US $ was(+)13%. In the year 2020-21 amount of FDI in crores was 442,569, in US $ million was 59,636 and the growth over previous years in terms of US $ was (+)19% . In the year 2021-22(P) amount of FDI in crores was 129,320 , in US $ million was 17,567 . so, in chart show the over the period of time FDI inflow was increases.

CONCLUSION

Attracting FDI has become one of the most important objectives for the planning body of the country. FDI not only brings the much needed capital to the host country, but also creates externalities associated with it. The externalities in the form of technology transfer, competitive environment, management skills and cost efficient production techniques provide the strong platform for the diversification of the economy. The diversification in the economy creates new opportunities and different channels for investment, thereby, which in turn generates huge employment and higher standard of living which is translated into sustainable and inclusive development in the country. After implementation of New Economic Reforms in 1991, India has become most important destination for the direct investment. Diversification of origin country of FDI in India has become an important aspect as far FDI policy is concerned. Singapore and Mauritius has historically been the source of FDI inflow in India but in last few years we have seen that Netherland, Japan, USA, Germany, and UAE have also been emerging as countries from which FDI has been flowing to India. We have seen that spillovers accrue largely through backward FDI. Last but not the least, the potential and scope for FDI in manufacturing industries are huge. This sector has been witnessing constant growth in FDI. Within manufacturing sector, drug and pharmaceutical and automobiles acquire highest share of FDI. India needs to sustain and enhance this level of growth and diversification in order to attain the goal of structural transformation of our economy.

CHAPTER - IV

CHAPTER – IV

IMPACT OF FDI ON ECONOMICS GROWTH IN INDIA

4.1 IMPACT OF FDI AND GDP GROWTH IN INDIA

4.2 COUNTRY WISE FDI NET INFLOWS

4.3 COUNTRY WISE FDI NET INFLOWS IN THE PERCENTAGE OF GDP

4.4 GROWTH AND TREAND OF FDI INFLOWS IN INDIA AND CHINA

CHAPTER-4

IMPACT OF FDI ON ECONOMIC GROWTH IN INDIA

The historical background of FDI in India can be traced back with the establishment of East India Company of Britain. British capital came to India during the colonial era of Britain in India. After Second World War, Japanese companies entered Indian market and enhanced their trade with India, yet U.K. remained the most dominant investor in India. Further, after Independence issues relating to foreign capital, operations of MNCs, gained attention of the policy makers. Keeping in mind the national interests the policy makers designed the FDI policy which aims FDI as a medium for acquiring advanced technology and to mobilize foreign exchange resources. With time and as per economic and political regimes there have been changes in the FDI policy too. The industrial policy of 1965, allowed MNCs to venture through technical collaboration in India. Therefore, the government adopted a liberal attitude by allowing more frequent equity.

In the critical face of Indian economy the government of India with the help of World Bank and IMF introduced the macro-economic stabilization and structural adjustment program. As a result of these reforms India open its door to FDI inflows and adopted a more liberal foreign policy in order to restore the confidence of foreign investors. Further, under the new foreign investment policy Government of India constituted FIPB (Foreign Investment Promotion Board) whose main function was to invite and facilitate foreign investment.

Starting from a baseline of less than USD 1 billion in 1990, a recent UNCTAD survey projected India as the second most important FDI destination (after China) for transnational corporations during 2010-2012. As per the data, the sectors which attracted higher inflows were services, telecommunication, construction activities and computer software and hardware. Mauritius, Singapore, the US and the UK were among the leading sources of FDI to the country.

In 2013, the government relaxed FDI norms in several sectors, including telecom, defence, PSU oil refineries, power exchanges and stock exchanges, among others. In retail, UK-based Tesco submitted its application to initially invest US$ 110 million to start a supermarket chain in collaboration with Tata Group's Trent. In civil aviation, Malaysia-based Air Asia and Singapore Airlines teamed up with Tata Group to launch two new airline services. Also, Abu Dhabi-based Etihad picked up a 24 per cent stake in Jet Airways that was worth over Rs 2, 000 crore (US$ 319.39 million).

India has received total foreign investment of US$ 306.88 billion since 2000 with 94 per cent of the amount coming during the last nine years.

In the period 1999–2004, India received US$ 19.52 billion of foreign investment. In the period 2004–09, foreign investment in the country touched US$ 114.55 billion, further increasing to US$ 172.82 billion between 2009–September, 2013.

During FY 2012–13, India attracted FDI worth US$ 22.42 billion. Tourism, pharmaceuticals, services, chemicals and construction were among the biggest beneficiaries.

The January–November period in 2013 witnessed mergers and acquisitions deals worth US $ 26.76 billion in India, according to a survey by tax advisory firm Grant Thornton.

4.1 Impact of FDI and GDP growth in INDIA

Foreign Direct Investments help in boosting the growth of Indian economy. India has witnessed a growth in the flow of Foreign Direct investment , Since the introduction of liberalisation policy in India in 1991 and other policy reforms in India. In this study Secondary data was used to analyse the trend of FDI in India and to analyse the impact of FDI on Indian GDP.The data has been retrieved from Reserve Bank of India (RBI) website FDI has increased in India after the launch of Make in India. FDI inflow was US $45.1 bn in the year 2014 -15 increased to US $64.3 bn in the year 2018 -19. Thus the FDI inflows increased by 42.57 %. Thus it shows the increasing positive trend from 2014 to 2019. In this it is found that FDI as percentage of GDP was highest in the year 2014 -15 i.e. 3.062 % and lower in the year 2018 -19 i.e. 1.116 %. Which shows that after 2014 -15 there was a fall in the FDI as a percentage of GDP.

Table(4.1):- Impact of FDI on GDP Growth in INDIA

FDI inflow, GDP and FDI/GDP ratio in India (1991-92 to 2021-2022) Years	FDI Inflow (in rupees crore)	Growth rate of FDI inflow (%)	GDP	Growth rate of GDP (%)	FDI as a percentage of GDP
1991-92	409	-	1099072	-	0.037213
1992-93	1094	167.4817	1158025	5.363889	0.094471
1993-94	2018	84.46069	1223816	5.681311	0.164894
1994-95	4312	113.6769	1302076	6.394752	0.331163
1995-96	6916	60.38961	1396974	7.288207	0.49507
1996-97	9654	39.58936	1508378	7.974665	0.640025
1997-98	13548	40.33561	1573263	4.301641	0.86114
1998-99	12343	-8.8943	1678410	6.683371	0.735398
1999-00	10311	-16.4628	1786525	6.441513	0.577154
2000-01	12645	22.63602	1864301	4.35348	0.67827
2001-02	19361	53.1119	1972606	5.809416	0.981494
2002-03	14932	-22.8759	2048286	3.836549	0.729
2003-04	12117	-18.8521	2222758	8.517951	0.545134
2004-05	17138	41.43765	2388768	7.468649	0.717441
2005-06	24613	43.61652	3254216	36.22989	0.756342
2006-07	70630	186.9622	3566011	9.581263	1.980644
2007-08	98664	39.69135	3898958	9.336679	2.530522
2008-09	122919	24.58343	4162509	6.759524	2.953003
2009-10	123378	0.373417	4493743	7.957556	2.745551
2010-11	97320	-0.265104	7552665	0.1620962	1.288552
2011-12	165146	0.410703	8659505	0.1278179	1.907107
2012-13	121907	-0.354688	9827250	0.1188272	1.240500
2013-14	147518	0.173612	11093638	0.1141544	1.329753

FDI inflow, GDP and FDI/GDP ratio in India (1991-92 to 2021-2022) Years	FDI Inflow (in rupees crore)	Growth rate of FDI inflow (%)	GDP	Growth rate of GDP (%)	FDI as a percentage of GDP
2014-15	181682	0.188042	12320529	0.0995810	3.062628
2018-19	309867	0.067700	18684632	0.0952335	1.116406
2019-20	353558	0.123575	20157899	0.0730863	1.753943
2020-21	442569	0.201123	19561348	-0.0304964	2.262467
2021-22	**129320**	-2.422278	23038772	0.1509379	0.561315

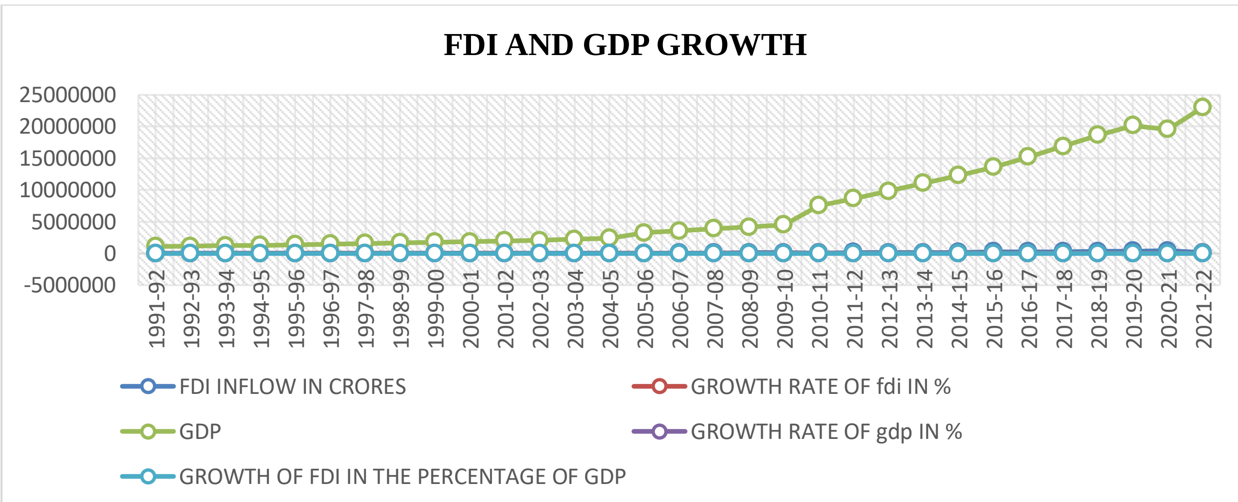
Source: Department of Industrial Policy & Promotion, Government of India, Ministry of Commerce and Industry.(FDI Statistics- 2000-01 to 2021-22).

In the below we see the impact of FDI and GDP growth in India. In the year 1991-92 total FDI inflow in crores was 409, in this year the Gross Domestic Product (GDP) was 1099072 crores and FDI in the percentage of GDP was 0.0372 . In the year 2000-01 total FDI inflow in crores was 12645 , the growth of FDI in the percentage was 22.63 , in this year the Gross Domestic Product (GDP) was 1864301 crores , the growth rate of percentage GDP was 4.353 and FDI in the percentage of GDP was 0.678 .In the year 2005-06 total FDI inflow in crores was 24613 , the growth of FDI in the percentage was 43.616 , in this year the Gross Domestic Product (GDP) was 3254616 crores , the growth rate of percentage GDP was 36.229 and FDI in the percentage of GDP was 0.756 . In the year 2007-08 total FDI inflow in crores was98664 , the growth of FDI in the percentage was 39.691 , in this year the Gross Domestic Product (GDP) was crores 3898958 , the growth rate of percentage GDP was 9.336 and FDI in the percentage of GDP was 2.53 . In the year 2010-11 total FDI inflow in crores was 97320 , the growth of FDI in the percentage was -0.265 , in this year the Gross Domestic Product (GDP) was crores 7552665 , the growth rate of percentage GDP was 0.162 and FDI in the percentage of GDP was 1.288 . In the year 2012-13 total FDI inflow in crores was 121907 , the growth of FDI in the percentage was -0.354 , in this year the Gross Domestic Product (GDP) was crores 9827250 , the growth rate of percentage GDP was 0.118 and FDI in the percentage of GDP was 1.240 . In the year 2014-15 total FDI inflow increases duu to the MAKE IN INDIA PROGRAM WAS STARTED , it was 181682 crores , the growth of FDI in the percentage was 0.188 , in this year the Gross Domestic Product (GDP) was 12320529 crores , the growth rate of percentage GDP was 0.099 and FDI in the percentage of GDP was 1.708 . In the year 2018-19 total FDI inflow in crores was 309867 , the growth of FDI in the percentage was 0.067 , in this year the Gross Domestic Product (GDP) was 18684632 crores , the growth rate of percentage GDP was 0.0952 and FDI in the percentage of GDP was 1.116 . In the year 2020-21 total FDI inflow in crores was 442569 , the growth of FDI in the percentage was 0.201 , in this year the Gross Domestic Product (GDP) was 19561348 crores , the growth rate of percentage GDP was -0.304 and FDI in the percentage of GDP was 2.262 .in the year the growth of GDP was decreses due to the pandemic . In the year 2021-22(P) total FDI inflow in crores was 129320 , the growth of FDI in the percentage was -2.422 , in this year the Gross Domestic Product (GDP) was 23038772 crores , the growth rate of percentage GDP was 0.150 and FDI in the percentage of GDP was 0.561 . In this it is found that FDI as percentage of GDP was highest in the year 2014 -15 i.e. 3.062 % and lower in the year 2018 -19 i.e. 1.116 %. This table shows that after 2014 -15 there was a fall in the FDI as a percentage of GDP.

In the chart (4.1) we see the we show the impact of FDI and GDP growth in India in the year 1991 to 2021. In the year 1991-92 total FDI inflow in crores was 409, in this year the Gross Domestic Product (GDP) was 1099072 crores and FDI in the percentage of GDP was 0.0372 . In the year 2000-01 total FDI inflow in crores was 12645 , the growth of FDI in the percentage was 22.63 , in this year the Gross Domestic Product (GDP) was 1864301 crores , the growth rate of percentage GDP was 4.353

and FDI in the percentage of GDP was 0.678 .In the year 2005-06 total FDI inflow in crores was 24613 , the growth of FDI in the percentage was 43.616 , in this year the Gross Domestic Product (GDP) was 3254616 crores , the growth rate of percentage GDP was 36.229 and FDI in the percentage of GDP was 0.756 .

Chart (4.1) - Impact of FDI on GDP growth



Source: Department of Industrial Policy & Promotion, Government of India, Ministry of Commerce and Industry.(FDI Statistics- 2000-01 to 2021-22).

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In the below table we see the descriptive statistics between the FDI inflow in crores and GDP in India . The mean of FDI inflow was 108670.8 and the mean of GDP was 7071856 . The standard error of FDI inflow and GDP was 22209.16 and 1244896. The Median of both FDI inflo and GDP was 70630 and 3566011. The standard deviation of both FDI inflow and GDP was 123655.4 and 6931286. The sample variance of FDI inflow and GDP was 1.53 and 4.8 . skewness of FDI infow was 1.168009 and skewness of GDP was 1.006231. The range of FDI inflow was 442160 and GDP was 21939700 . The total number of count in both FDI inflow and GDP was 31. The maximum value of the FDI inflow and GDP was 442569 and 23038772 . The minimum value of the FDI inflow and GDP was 409 and 1099072.

DATA ANALYSIS

Table(4.2):- Descriptive statistics.

FDI INFLOW IN CRORES		GDP	
Mean	108670.8	Mean	7071856
Standard Error	22209.16	Standard Error	1244896
Median	70630	Median	3566011
Mode	#N/A	Mode	#N/A
Standard Deviation	123655.4	Standard Deviation	6931286
Sample Variance	1.53E+10	Sample Variance	4.8E+13
Kurtosis	0.482191	Kurtosis	-0.38799
Skewness	1.168009	Skewness	1.006231
Range	442160	Range	21939700
Minimum	409	Minimum	1099072
Maximum	442569	Maximum	23038772
Sum	3368796	Sum	2.19E+08
Count	31	Count	31

Sources:- Calculated through Excel

$H0_2$: There is no There is no statistically significant association between FDI and GDP.

Table (4.3) – Model Summary.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.952[a]	.906	.904	2.49834E11	.960

Sources:- :- Calculated through SPSS

a. Predictors: (Constant), FDI

b. Dependent Variable: GDP

According to the TABLE 4.3 it shows the value of R square is 0.906, which measures the proportion of the variance in GDP which is predictable from FDI. In other words it means that 90.6 percent of the changes in GDP is because of the changes in FDIs and other 10 percentchanges in GDP is due to other variables which are defined in the error term.

Table (4.4) - ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.880E25	1	2.880E25	461.340	.000
	Residual	2.996E24	48	6.242E22		
	Total	3.179E25	49			

Sources:- :- Calculated through SPSS

a. Predictors: (Constant), FDI

b. Dependent Variable: GDP

According to the TABLE 4.4 , Test results the P value is 0.000. However, the α value is 0.05. Therefore, the null hypothesis will be rejected. In other words the test results shows that there is a significant linear association between Foreign Direct Investments and Gross Domestic Product.

Table (4.5) - Coefficient

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	2.302E11	4.260E10		5.405	.000		
	FDI	47.083	2.192	.952	21.479	.000	1.000	1.000

Sources:- Calculated through SPSS

a .depandent Variable: GDP

Since the VIF value is less than 10 multi co linearity does not exist.

$$Y_t = \alpha + \beta X_t + \mu_t$$

$$GDP_t = 2.302 + 47.083\, FDI_t + \mu_t$$

According to the above TABLE 4.5 change in 1 USD Billion in FDI will change the GDP by 47.083 USD Billion. Since the FDI and GDP is having a positive correlation an increase in 1

USD Billion will increase the GDP by 47.083 USD Billion.

TABLE (4.6) – Correlations

		GDP	FDI
GDP	Pearson Correlation	1	.952**
	Sig. (2-tailed)		.000
	N	50	50
FDI	Pearson Correlation	.952**	1
	Sig. (2-tailed)	.000	
	N	50	50

Sources:- :- Calculated through SPSS

**. Correlation is significant at the 0.01 level (2-tailed).

H_0 : There is no correlation between GDP and FDI

H_1 : There is a correlation between GDP and FDI

According to the TABLE 4 the value is 0.05. However, the P value is 0.00. Therefore the null hypothesis will be rejected, which means that there is an association between GDP and FDI. According to the correlation results it depicts that there is a positive correlation between GDP and FDI. Moreover, the degree of association between the variables are very high. Therefore GDP and FDI are having a high positive correlation. Whenever FDI is increases the GDP will also rise. Whenever the FDI is decreases the GDP will also fall.

4.2 COUNTRY WISE FDI NET INFLOWS

Foreign Direct investment (FDI) is investment made to acquire a lasting interest in or effective control over an enterprise operating outside of the economy of the investor. FDI net inflows are the value of inward direct investment made by non-resident investors in the reporting economy, including reinvested earnings and intra-company loans, net of repatriation of capital and repayment of loans.

Table(4.7):- country wise FDI net inflow (amount in US $ billion)

Country Name	1990	2000	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Australia	8.458	14.893	65.555	57.550	54.465	63.203	46.893	42.970	48.199	61.325	39.101	0.0196
Azerbaijan	..	0.130	4.485	5.293	2.619	4.430	4.048	4.500	2.867	1.403	1.504	0.0005
Bangladesh	0.003	0.280	1.265	1.584	2.603	2.539	2.831	2.333	1.810	2.422	1.908	0.0011
Belgium	8.047	88.739	163.624	11.810	-29.641	-15.206	-19.514	57.538	-37.289	-41.601	-30.075	-0.0176
Bhutan	0.002	..	0.031	0.024	0.020	0.024	0.006	0.012	-0.017	0.003	0.013	0.0000
Brazil	0.989	32.995	102.427	92.568	75.211	87.714	64.738	74.295	68.885	78.163	69.174	0.0378
Canada	8.402	68.303	38.338	49.369	67.028	64.175	59.986	34.202	25.358	42.604	48.547	0.0266
China	3.487	42.095	280.072	241.214	290.928	268.097	242.489	174.750	166.084	235.365	187.170	0.2125
Finland	0.812	13.502	-6.008	4.931	-4.922	17.529	17.485	5.124	17.149	-10.572	15.612	-0.0024
France	13.183	41.389	44.206	32.945	31.589	5.805	42.825	32.804	35.868	77.493	57.483	0.0132
Germany	2.557	248.007	97.535	65.443	67.200	19.488	62.422	64.708	109.506	158.515	67.619	0.1126
India	**-0.362**	**0.039**	**4.277**	**4.662**	**3.050**	**2.105**	**2.050**	**3.372**	**5.019**	**2.373**	**1.508**	**0.0013**
Iraq	-0.007	0.000	2.082	3.400	-2.335	-10.176	-7.574	-6.256	-5.032	-4.885	-3.076	-0.0031
Israel	0.151	8.048	8.653	9.017	11.842	6.049	11.336	11.988	16.893	21.515	17.363	0.0243
Italy	6.441	13.173	34.465	0.035	19.531	17.033	13.303	25.657	11.138	44.250	31.185	-0.0221
Japan	1.806	10.688	-0.851	0.547	10.648	19.752	5.252	40.954	18.802	25.289	40.128	0.0627
Malaysia	2.332	3.788	15.119	8.896	11.296	10.619	9.857	13.470	9.368	8.304	9.155	0.0043
Nepal	0.006	0.000	0.094	0.092	0.074	0.030	0.052	0.106	0.196	0.068	0.186	0.0001
Netherland	10.676	63.110	332.071	239.669	328.677	117.627	322.580	233.359	213.648	-344.708	-169.298	-0.1493
New Zealand	1.685	-1.508	1.378	3.847	-0.070	3.252	-0.073	2.008	2.390	2.516	2.921	0.0041
United Kingdom	41.363	164.130	27.012	46.751	54.473	58.890	45.333	324.813	125.359	-25.055	2.237	0.0311
United States	71.230	349.125	263.497	250.345	288.131	251.856	511.434	474.388	380.823	214.315	302.199	0.2113
World	**239.415**	**1569.112**	**2373.334**	**2082.070**	**2169.746**	**1932.812**	**2722.425**	**2736.427**	**2204.262**	**931.693**	**1514.225**	**1.2277**

Sources:- UNCTAD & World Bank report

In the above table show the country wise FDI net inflow in the year 1990-2020 . I take 23 country , in the year 1990 FDI inflows in Australia was 8.458 billion, Canada was 8.402 billion , China was 3.487 billion , India was -0.362 billion , France was 13.183 billion and USA was 71.230 billion, the world net inflow in FDI was 239.415 billion . In 2011 FDI net inflow in Australia was 65.555billion , Belgium was 163.624 billion , Chain was 28.072 billion , India was 4.277 billion , France was 44.206 billion , Germany was 97.535 billion, USA was 263.497 billion, in the year the world net inflow was 2373.334 billion. In the time path it was increases, but in the year 2019 it was effected due to the pandemic situation, in 2019 FDI net inflow in Australia was 39.101 billion , china was 48.547, India was 1.508 billion, France was 57.483 billion, UK was 2.23 billion , USA was 302.199 billion and the world level net inflow was 1514.225 billion . in 2020,in this year it was badly affected the FDI net inflow due to the covid pandemic the share of India net FDI inflows was 0.013 billion and World net inflow in FDI was 1.2277billion. So, that table shows that over the time frame FDI inflow was increases , but the pandemic somehow effected the FDI net inflow.

4.3 COUNTRY WISE FDI NET INFLOW IN THE PERCENTAGE OF GDP

In the below table show the country wise FDI net inflow in the percentage of GDP . in the year 1990 FDI inflow in the percentage of GDP Australia was 0.20,China was 3.18, India was 0.019, USA was 1.0052 and the world FDI net inflow in the percentage of GDP was 1.3005 . in the year 2011 FDI inflow in the percentage of GDP in Australia was 0.59, France was 2.253, China was 38.59 , India was 0.69, USA was 2.80. in 2015 the FDI inflows in the percentage of GDP Austrelia was 0.615 , Canada was 0.173 , China was 3.2243, India was 0.2199 , USA was 1.65. in 2019 the share of FDI net inflow in the percentage of GDP in Australia was 0.68, China was 10.40 , India was 0.45 and USA was 0.57 it was decreases due to the pandemic situation . in the year 2020 the FDI inflow in the percentage of GDP was Australia was 0.93, France was 2.03, Chain was 24.06 , India was 0.41 , USA was 1.48 and the share of world level FDI inflow in the percentage of GDP was1.15. the covid was badly affected the FDI inflow.

Table (4.8):- country wise FDI net inflow in the %of GDP.

Country Name	1990	2000	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Australia	0.2033	0.9854	0.5902	0.3727	-0.0488	1.5377	0.6115	-0.2576	0.7540	0.0193	0.6818	0.9394
Azerbaijan	..	0.0144	5.3866	6.4302	1.9927	2.6408	6.0469	6.7963	6.2752	3.7376	5.0478	1.9369
Bangladesh	0.0016	0.0037	0.2312	0.2168	0.3646	0.0242	0.0307	0.0183	0.0508	0.0070	0.0076	0.0031
Belgium	3.0752	36.5623	24.7024	8.3628	-2.3712	-0.0782	1.5861	7.2635	-1.0568	-6.6300	-6.5008	-3.7244
Bhutan	..	..	..	..	..	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Brazil	0.1702	0.3810	0.6141	0.0845	0.6326	0.8390	0.1739	0.8183	1.0342	0.1056	1.2152	-0.2400
Canada	1.0187	6.2637	2.7934	3.4046	2.9495	3.5985	5.3912	4.4245	4.7408	3.6376	4.4664	3.0489
China	0.2300	0.3807	0.6412	0.7614	0.7625	1.1754	1.5765	1.9266	1.1234	1.0294	0.9588	0.7466
Finland	1.9671	22.4986	-1.2901	3.2423	-2.6387	0.1525	-0.3225	8.5675	5.3658	1.1439	2.6231	1.8290
France	2.7438	12.7434	2.2536	1.9381	0.6266	1.8615	2.1012	3.0205	1.8762	4.9891	2.3095	2.0361
Germany	1.3567	5.0522	2.8819	2.8090	2.4993	2.7679	3.8989	3.2243	3.9602	4.6953	3.9387	2.8984
China	3.1822	40.7672	38.5918	33.5540	30.2247	48.3402	25.3779	23.5484	29.8208	20.7393	10.4039	24.0699
India	**0.0019**	**0.1088**	**0.6916**	**0.4680**	**0.0951**	**0.5731**	**0.3572**	**0.2199**	**0.4183**	**0.4227**	**0.4578**	**0.4181**
Iraq	..	..	0.1970	0.2248	0.0968	0.1057	0.0886	0.1827	0.0416	0.0829	0.0826	0.0891
Israel	..	2.5181	2.8216	0.8806	1.3116	1.4554	3.6552	4.5697	2.1459	1.6290	2.1835	1.5658
Italy	0.6303	0.5676	2.2632	0.3257	0.9469	0.9484	0.8402	0.7282	0.6037	1.8488	1.6358	-0.0041
Japan	1.6207	0.9063	1.8744	1.8754	2.9869	2.8165	3.1140	3.5696	3.5237	3.1809	5.0124	3.0115
Malaysia	0.2930	2.1602	6.0776	5.3736	4.1476	4.7506	3.4982	3.3517	1.7575	1.6069	2.0609	1.0800
Nepal	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Netherlands	4.3094	17.8928	41.1060	28.3609	47.4217	13.2902	51.0808	37.0973	32.8757	-29.9507	-13.8908	-21.9101
New Zealand	5.1941	-7.8688	-0.0715	-0.0515	-0.7408	0.7066	-0.0088	-0.4047	-0.0387	0.3035	-0.7321	0.3309
United Kingdom	2.5598	17.5707	3.0219	0.4422	1.6499	-3.6900	-2.0354	1.2086	6.3743	-0.9870	-1.6755	-1.9301
United States	1.0052	1.8178	2.8092	2.3291	2.3402	2.2110	1.6562	1.5994	2.0949	-0.6308	0.5701	1.4876
World	**1.3005**	**4.0535**	**2.9604**	**2.2561**	**2.4756**	**2.1711**	**2.8516**	**2.7968**	**2.5680**	**0.7426**	**1.2931**	**1.1556**

Sources:- UNCTAD & World Bank report

4.4 Growth and trends of FDI inflows in India and China.

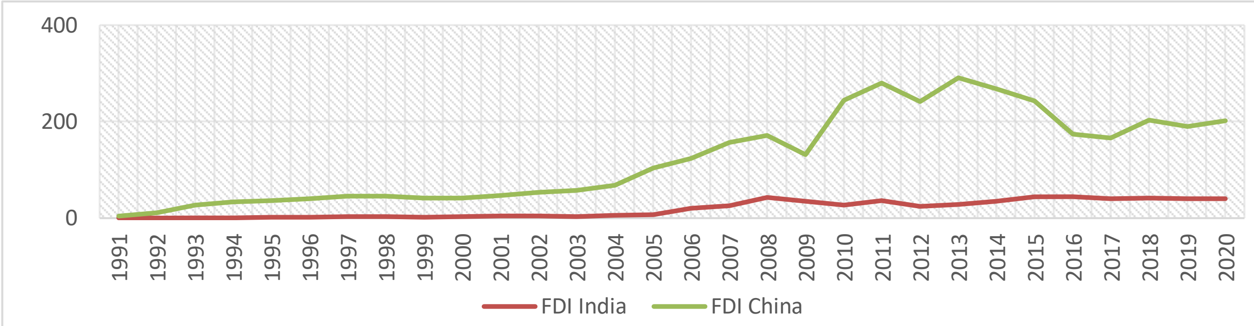
The purpose of this study is to identify the impact of FDI in India and China economy. This study is statistical analysis model where, annual data of FDI inflows selected as independent variables and Gross Domestic Product (GDP) as dependent variables for the period of 1991 to 2020. The data have been attained from World Bank database and the globaleconomy.com for the aforesaid period. Regression analysis and least square methods are used for assessment of impact of FDI on economic growth of these countries.

Table (4.9):- Growth and trends of FDI inflows in India and China (US$ Billion)

Year	FDI India	FDI China
1991	0.7	4.37
1992	0.28	11.16
1993	0.55	27.52
1994	0.97	33.79
1995	2.14	35.85
1996	2.43	40.18
1997	3.58	45.44
1998	2.68	45.64
1999	2.17	41.01
2000	3.58	42.10
2001	5.13	47.05
2002	5.21	53.07
2003	3.68	57.90
2004	5.43	68.12
2005	7.27	104.11
2006	20.03	124.08
2007	25.23	156.25
2008	43.41	171.53
2009	35.58	131.06
2010	27.40	243.7
2011	36.50	280.07
2012	24.00	241.21
2013	28.15	290.93
2014	34.58	268.10
2015	44.01	242.49
2016	44.46	174.75
2017	39.97	166.08
2018	42.12	203.49
2019	40.35	190.55
2020	40.50	201.54
Mean	**15.73**	**114.67**
SD	**16.12**	**94.40**

Source: - UNCTAD and World Bank.

Chart (4.2):- Growth and trends of FDI inflows in India and China



Sources:- UNCTAD and World Bank.

4.4.1 Regression Analysis: Impact of FDI on Chinese Economy.

The results of Regression Analysis (Refer Table:4.10) exhibits that the impact of FDI (the independent variable) on the economic growth of China and it is statistically significant at 5% level as the p-value is less than 5%. It can be understood that around 19% of economic growth is contributed by FDI which has played a great role in the development of the economy of China. In short FDI have significant positive impact on growth rate of the Chinese market.

4.4.2 Regression Analysis: Impact of FDI on Indian Economy.

The Table 4.11 shows that the result of Regression Analysis which exhibits that the impact of FDI on the economic growth rate of India. This indicate that FDI have no significant impact on Indian economy. There is a very low positive correlation between the inflow of FDI and market growth rate of India. Political instability, rigid government laws, high rates of taxes, labour regulations, exchange rates volatility, corruptions etc. are the main crucial barriers for decreasing the FDI in India compared to China.

Table (4.10):- Impact of FDI on Chinese economy

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	10.82835	0.683169	15.85019	0.0000
FDI_CHN	0.011453	0.004439	2.580163	0.0154
R-squared	0.192088	Mean dependent var		9.399333
Adjusted R-squared	0.163234	S.D. dependent var		2.394865
S.E. of regression	2.190701	Akaike info criterion		4.470660
Sum squared resid	134.3768	Schwarz criterion		4.564074
Log likelihood	-65.05991	Hannan-Quinn criter.		4.500544
F-statistic	6.657242	Durbin-Watson stat		0.582299
Prob(F-statistic)	0.015413			

Sources:- Calculated through SPSS

Table (4.11):- Impact of FDI on Indian economy

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5.946888	0.512374	11.60654	0.0000
FDI_IND	0.019207	0.019790	0.970553	0.3401
R-squared	0.032547	Mean dependent var		6.317000
Adjusted R-squared	-0.002005	S.D. dependent var		1.872467
S.E. of regression	1.874343	Akaike info criterion		4.158734
Sum squared resid	98.36853	Schwarz criterion		4.252147
Log likelihood	-60.38101	Hannan-Quinn criter.		4.188618
F-statistic	0.941972	Durbin-Watson stat		1.608103
Prob(F-statistic)	0.340081			

Sources:- Calculated through SPSS

The Table 4.12 indicates that the average value of FDI as a percentage of GDP in India during that period is 1.23 percent with a minimum of 0.1 percent in 1991 and a maximum of 3.62 percent in 2008. The average value FDI as percentage of GDP in China during the period is 3.41 percent with a minimum of 1.14 percent in 1991 and a maximum of 6.19 percent in 1993. Average FDI as a percentage of GDP in India is very low compared to China. This argument shows that FDI in India have only minor role for the development of Indian economy.

Table (4.12):- Foreign Direct Investment as a percentage of GDP in India and China

Year	FDI as a percentage of GDP in India	FDI as a percentage of GDP in China
1991	0.1	1.14
1992	0.1	2.61
1993	0.2	6.19
1994	0.3	5.99
1995	0.59	4.88
1996	0.62	4.65
1997	0.86	4.73
1998	0.63	4.44
1999	0.47	3.75
2000	0.77	3.48
2001	1.06	3.51
2002	1.01	3.61
2003	0.61	3.49
2004	0.77	3.48
2005	0.89	4.55
2006	2.13	4.51
2007	2.07	4.40
2008	3.62	3.73
2009	2.65	2.57
2010	1.64	4.0
2011	2.0	3.71
2012	1.31	2.83
2013	1.52	3.04
2014	1.70	2.57
2015	2.09	2.2
2016	1.94	1.57
2017	1.51	1.37
2018	1.55	1.73
2019	1.24	1.28
2020	1.17	2.50
Mean	**1.23**	**3.41**

Source: - unctad AND World Bank

The present study is to analyse the impact of FDI on economic growth in India and China. It is clear that the Government has to improve the focus and reduce the restrictions thereby raising the opportunity of higher inflow of FDI. The present research is to evaluate the FDI policy in India and China, and to give the suggestions to the policymakers to promote FDI inflows in India and China.

It was found that FDI to be an important factor for emerging markets economic performance. Average FDI investment of Indian and China are 15.7 and 114.67 US $ billion. Average growth rate of India and China are 6.31 and 9.85 Average FDI inflows as a percentage of GDP in India is very low compared to China. FDI have no significant impact on the economic growth of India. FDI have significant impact on the economic growth of China.

CONCLUSION

India's Foreign Direct Investment (FDI) policy has been gradually liberalised to make the market more investor friendly. The results have been encouraging. These days, the country is consistently ranked among the top three global investment destinations by all international bodies, including the World Bank, according to a United Nations (UN) report. For Indian economy which has tremendous potential, FDI has had a positive impact. FDI inflow supplements domestic capital, as well as technology and skills of existing companies. It also helps to establish new companies. All of these contribute to economic growth of the Indian Economy.

CHAPTER - V

CHAPTER – V

TRENDS AND PATTERNS OF FDI FLOW AT SECTORAL LEVEL

5.1 SECTORE WISE FDI INFLOW IN INDIA

5.2 SHARE OF TOP INVESTING COUNTRY FDI INFLOWS

5.3 FDI EQUITY INFLOWS WITHIN STATE IN INDIA

5.4 FINANCIAL POSITION IN INDIA

5.5 MODEL -1

5.2 MODEL - 2

CHAPTER-V

TRENDS AND PATTERNS OF FDI FLOW AT SECTORAL LEVEL

One of the most prominent and striking feature of today's globalised world is the exponential growth of FDI in both developed and developing countries. In the last two decades the pace of FDI flows are rising faster than almost all other indicators of economic activity worldwide. Developing countries, in particular, considered FDI as the safest type of external finance as it not only supplement domestic savings, foreign reserves but promotes growth even more through spillovers of technology, skills, increased innovative capacity, and domestic competition. Now days, FDI has become an instrument of international economic integration.

Located in South Asia, India is the 7th largest and the 2^{nd} most populated countryin the world. India has long been known for the diversity of its culture, for the inclusiveness of its people and for the convergence of geography. Today, the world's largest democracy has come to the forefront as a global resource for industry in manufacturing and services. Its pool of technical skills, its base of an English – speaking populace with an increasing disposable income and its burgeoning market has all combined to enable India emerge as a viable partner to global industry. Recently, investment opportunities in India are at a peak.

Economic reforms taken by Indian government in 1991 makes the country as one of the prominent performer of global economies by placing the country as the 4^{th} largest and the 2^{nd} fastest growing economy in the world. India also ranks as the 11^{th} largest economy in terms of industrial output and has the 3^{rd}largest pool of scientific and technicalmanpower. Continued economic liberalization since 1991 and its overall directionremained the same over the years irrespective of the ruling party moved the economy towards a market – based system from a closed economy characterized by extensiveregulation, protectionism, public ownership which leads to pervasive corruption and slowgrowth from 1950s until 1990s.

5.1 Sector wise FDI inflow in INDIA

5.1.1 Manufacturing sector

Manufacturing has emerged as one of the high growth sectors in India. Prime Minister of India, Mr Narendra Modi, launched the 'Make in India' program to place India on the world map as a manufacturing hub and give global recognition to the Indian economy. Government aims to create 100 million new jobs in the sector by 2022.

In manufacturing sector FDI inflow in 2006-07 was 1641 US $ million, in 2009-10 it was 5143 US $ million, in 2012-13 it was 6582 million , in 2014-15 it was 9613 US $ million, in 2018-19 it was 7919 US $ million , in 2019-20 it was 4104 US $ million it was reduces due to the covid pandemic . In 2020-21 it was 23050 US $ million.

Chart (5.1) – FDI inflow in Manufacture sector

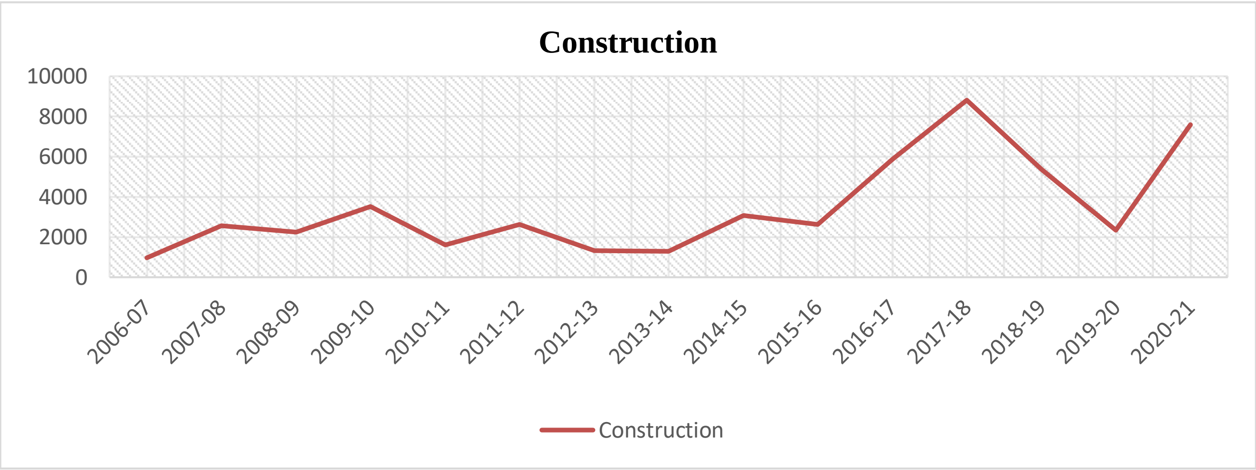
Sources:-World Bank Report

5.1.2 Constriction Sector

The construction industry makes up for a significant part of India's GDP. Being an essential contributor to the GDP of India, the sector acts as a gateway for more opportunities.

Investment in the construction industry in India, therefore, directly leads to the country's economic development. The Construction industry in India consists of the real estate as well as the urban development segment. By 2025, the country's construction market will emerge as 3rd most significant globally, and the construction output is expected to grow on an average of 7.1% each year. An enhancement in the construction industry will directly affect other sectors like cement, technology, steel, etc. The development of a nation gets recognized through its infrastructure. FDI in the construction department in North India will bring new possibilities to uplift the construction industry.

Chart (5.2) – FDI inflow in Construction sector



Sources:-World Bank Report

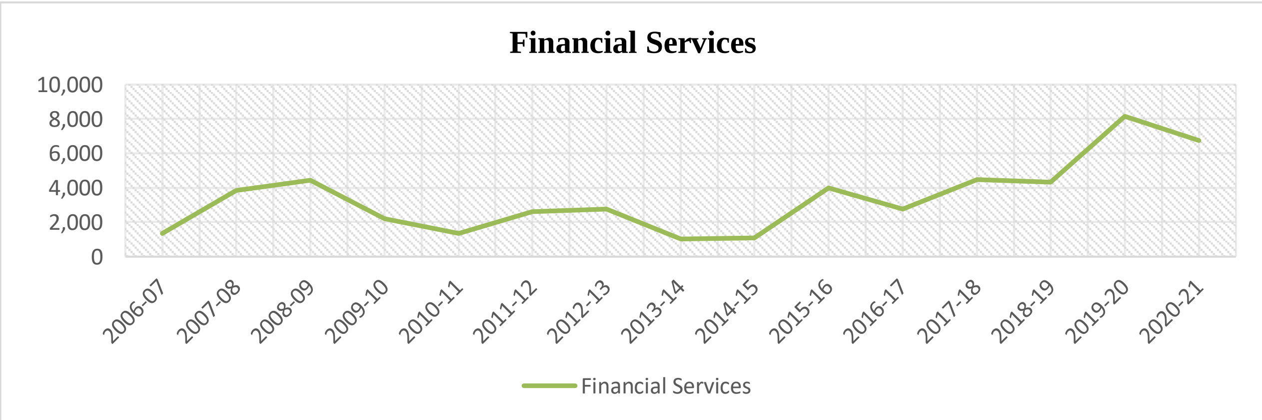
In construction sector FDI inflow in 2006-07 was 967 US $ million, in 2009-10 it was 3516 US $ million, in 2012-13 it was 1319 million , in 2014-15 it was 3075 US $ million, in 2018-19 it was 5365 US $ million , in 2019-20 it was 2333 US $ million it was reduces due to the covid pandemic . in 2020-21 it was 7584 US $ million.

5.1.3 Financial services

Services sector puts the economy on a proper glide path. It is among the main drivers of sustained economic growth and development by contributing 55% to GDP. There is a continuously increasing trend of FDI inflows in services sector with a steep rise in the inflows from 2005 onwards (Chart-3.14). Service sector received an investment of US$ 19.2 bn which is 19.34% of the total FDI inflows from 1991-2008 from FIPB/SIA, acquisition of existing shares and RBI's automatic routes only.

In financial service sector FDI inflow in 2006-07 was 1330 US $ million, in 2009-10 it was 2206 US $ million, in 2012-13 it was 2760 million , in 2014-15 it was 1075 US $ million, in 2018-19 it was 4311 US $ million , in 2019-20 it was 8153 US $ million and in 2020-21 it was reduces 6739 US $ million.

Chart (5.3) – FDI inflow in financial service sector



Sources:-World Bank Report

5.1.4 Real Estate Activities.

The Real Estate Sector in India has flourished in the past decade. The construction industry is one of the most important sectors for generating employment and has a direct, induced and, indirect effect on all sectors of the economy. Its importance is evident in the data released by the Department for Promotion of Industry and Internal Trade Policy ('DPIIT'), which reveals that construction was the third largest sector in terms of FDI inflow- which stood around US Dollar 50.8 billion between April 2000 and March 2021.

In Real Estate Activities sector FDI inflow in 2006-07 was 431 US $ million, in 2009-10 it was 2191 US $ million, in 2012-13 it was 197 million , in 2014-15 it was 2551 US $ million, in 2018-19 it was 6372 US $ million , in 2019-20 it was 4914 US $ million it was reduces due to the covid pandemic . in 2020-21 it was 2960 US $ million.

Chart (5.4) – FDI inflow in Real Estate sector

Sources:-World Bank Report

5.1.5 Electricity and other energy generation.

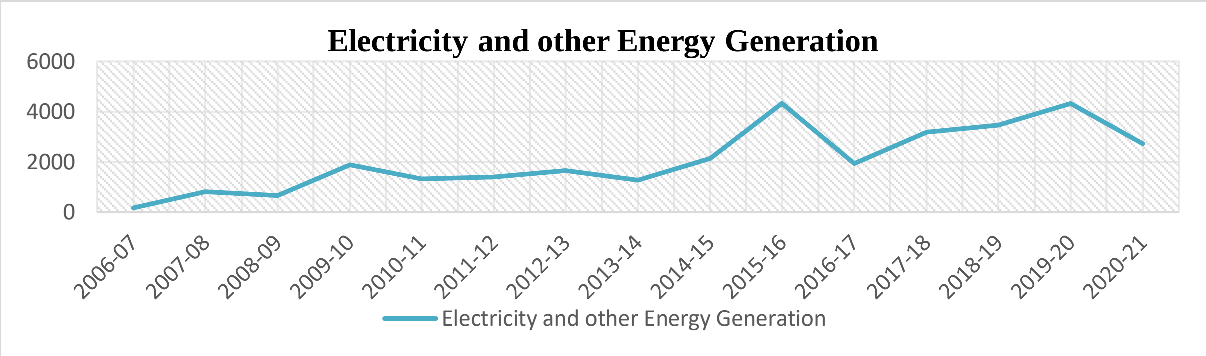
With a production of 1108 TW, India is the world's 3rd largest producer and 4th largest consumer of electricity in the world with a total demand of 1905 TW expected by 2022. The Indian government has provided electricity in 14,955 villages so far and aims to electrify all 18,452 villages by end of 2019. There is about a 40% increase in transformation capacity from 5.3 lakh MVA in March 2014 to 7.4 lakh MVA in March 2017.

The Ministry of Power has set a target of 1,229.4 billion units (BUs) of electricity to be generated in the financial year 2017-18, which is 50 BUs higher than the target for 2016-17. Power consumption estimated to increase from 1160.1 TWh in 2016 to 1,894.7 TWh in 2022.

In Electricity sector FDI inflow in 2006-07 was 174 US $ million, in 2009-10 it was 1877 US $ million, in 2012-13 it was 1653 million , in 2014-15 it was 2154 US $ million, in 2018-

19 it was 3453 US $ million , in 2019-20 it was 4326 US $ million . in 2020-21 it was reduces 2728 US $ million.

Chart (5.5) – FDI inflow in Electricity and other Energy Generation sector



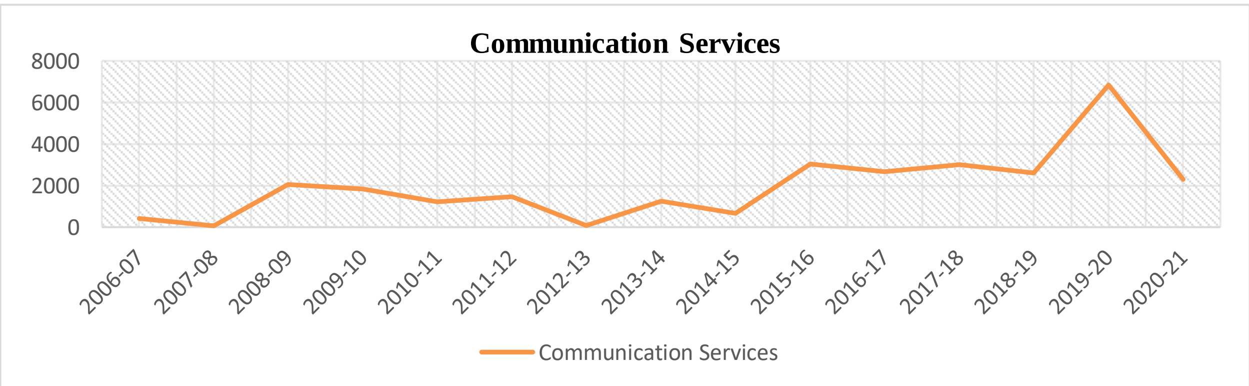
Sources:-World Bank Report

5.1.6 Communication services.

India is currently the world's 2nd largest telecommunications market with a subscriber base of 1.2 billion and has registered strong growth in the past decade and half. The industry has witnessed exponential growth over the last few years primarily driven by affordable tariffs, wider availability, roll out of Mobile Number Portability (MNP), expanding 3G and 4G coverage, evolving consumption patterns of subscribers and a conducive regulatory environment

In communication services sector FDI inflow in 2006-07 was 423 US $ million, in 2009-10 it was 1852 US $ million, in 2012-13 it was 92 million , in 2014-15 it was 680 US $ million, in 2018-19 it was 2597 US $ million , in 2019-20 it was 6838 US $ million it was reduces due to the covid pandemic . in 2020-21 it was 2314 US $ million.

Chart (5.6) – FDI inflow in Communication services sector



Sources:-World Bank Repor

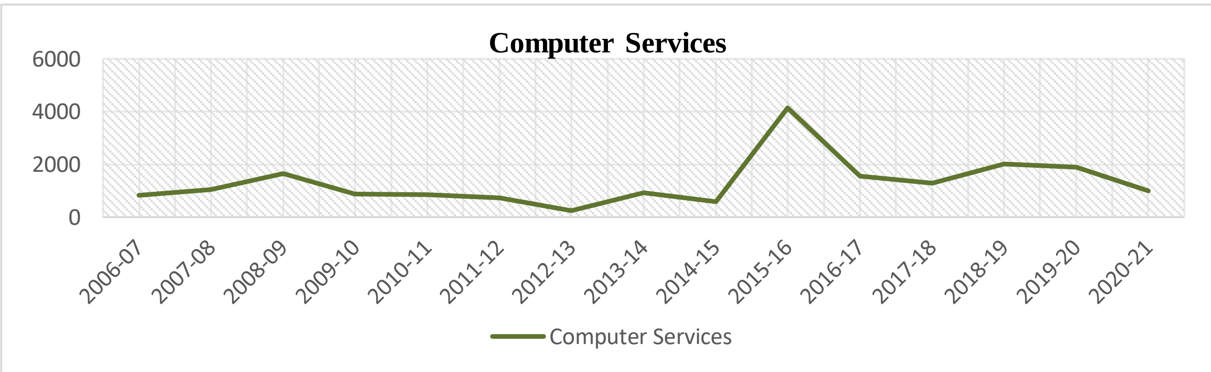
5.1.7 Computer services.

The Foreign Direct Investment equity inflow in the computer software and hardware sector received $26.14 billion during 2020-21. According to the data shown by the Department for Promotion of Industry and Internal Trade (DPIIT), the computer software and hardware sector saw a four-times jump as it received $7.67 billion in 2019-20 and $6.41 billion in 2018-19.

During the pandemic, technological adoption in India has taken a quantum leap at both the organizational and industry levels. The COVID crisis has accelerated the digitisation of customer interactions by several years.

In computer service sector sector FDI inflow in 2006-07 was 824 US $ million, in 2009-10 it was 866 US $ million, in 2012-13 it was 247 million , in 2014-15 it was 586 US $ million, in 2018-19 it was 2009 US $ million , in 2019-20 it was 1906 US $ million and in 2020-21 it was 989 US $ million.

Chart (5.7) – FDI inflow in Computer services sector



Sources:-World Bank Report

5.1.8 Restaurant and Hotel services

In financial year 2021, the foreign direct investment equity inflow to the hotel and tourism industry in India was approximately 369 million U.S. dollars. This was a share of 2.21 percent of the FDI equity inflows into the service sector.

In restaurant and Hotel services sector FDI inflow in 2006-07 153 was US $ million, in 2009-10 it was 671 US $ million, in 2012-13 it was 3129 million , in 2014-15 it was 482 US $ million, in 2018-19 it was 2427 US $ million , in 2019-20 it was 528 US $ million it was reduces due to the covid pandemic . in 2020-21 it was 963 US $ million.

Chart (5.8) – FDI inflow in Restaurant and Hotel service sector

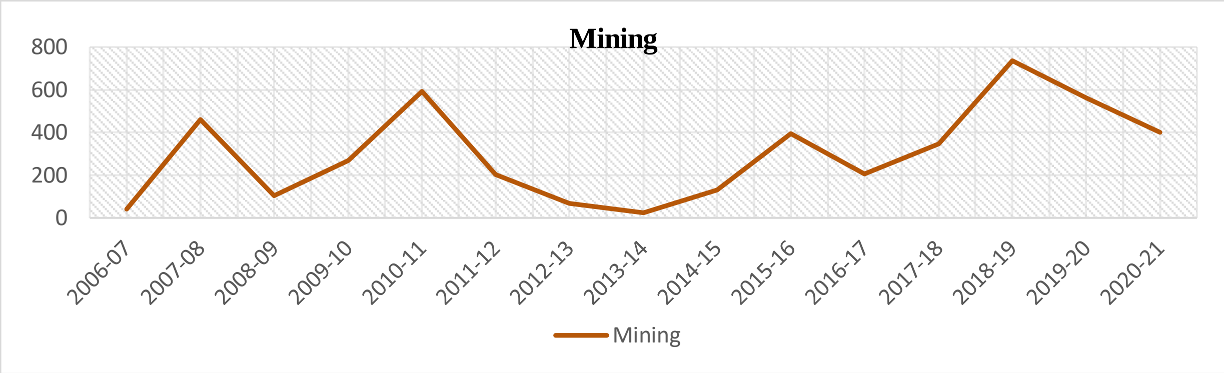
Sources:-World Bank Report

5.1.9 Mining sector

One of the core sectors in India, the mining sector, provides basic raw materials to many important industries. India has a significant cost advantage in the steel and alumina industries regarding production and conversion costs. In addition, its strategic location facilitates the development of exports as well as the fast-growing Asian markets. India is the world's second-largest coal producer. Coal consumption / accurate supply (including imports) grew from 836.93 million tones in 2016-17 to 968.03 million tonnes in 2018-19.

In mining sector FDI inflow in 2006-07 was 42 US $ million, in 2009-10 it was 268 US $ million, in 2012-13 it was 69 million, in 2014-15 it was 131 US $ million, in 2018-19 it was 736 US $ million , in 2019-20 it was 564 US $ million it was reduces due to the covid pandemic . in 2020-21 it was 401 US $ million.

Chart (5.9) – FDI inflow in Mining sector

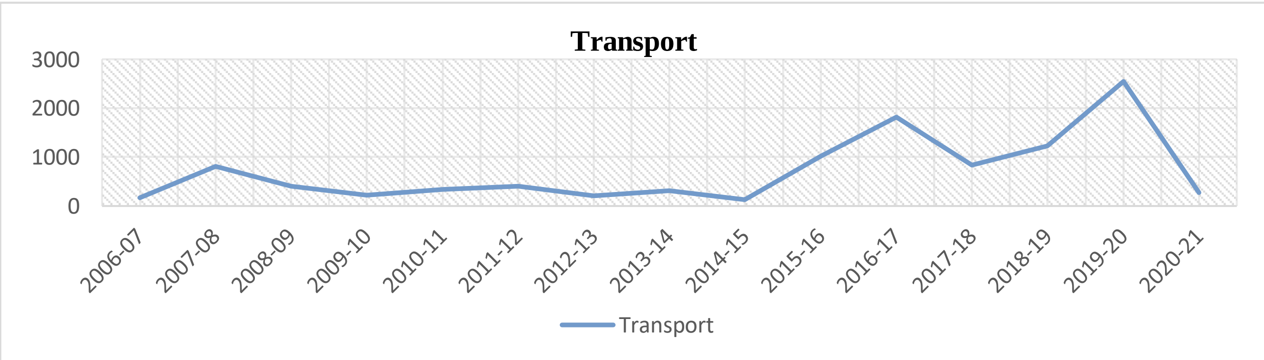


Sources:-World Bank Report

5.1.10Transport sector

The transport infrastructure sector is the fastest expanding component of the country's infrastructure sector. India has one of the largest road networks globally, spanning over a total of 6.4 million km. National highways make up 2% of the overall road network yet transport 40% of all traffic. The Government of India (GoI) plans to expand the national highway network to over 200,000 km. The Government launched the Bharatmala Pariyojana, which aims to build 66,100 km of economic corridors, borders, coastal roads, and expressways to boost the highway network . In transport sector sector FDI inflow in 2006-07 was 165 US $ million, in 2009-10 it was 220 US $ million, in 2012-13 it was 2132 million , in 2014-15 it was 129 US $ million, in 2018-19 it was 1226 US $ million , in 2019-20 it was 2546 US $ million it was reduces due to the covid pandemic . in 2020-21 it was 287 US $ million.

Chart (5.10) – FDI inflow in Transport sector



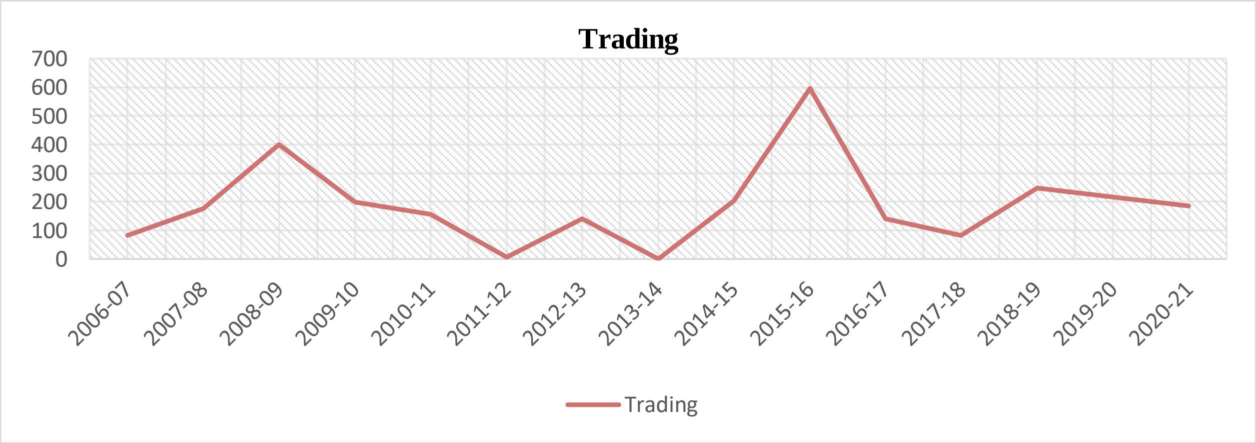
Sources:-World Bank Report

5.1.11Trading sector

There was a foreign direct investment equity inflow of approximately 2.6 billion U.S. dollars for the trading sector in India during the financial year 2021. This was a significant decrease compared to the previous three years, when the FDI inflows were above four billion U.S. dollars each year.

In trading sector sector FDI inflow in 2006-07 was 82 US $ million, in 2009-10 it was 198 US $ million, in 2012-13 it was 140 million , in 2014-15 it was 202 US $ million, in 2018-19 it was 247 US $ million , in 2019-20 it was 217 US $ million it was reduces due to the covid pandemic . in 2020-21 it was 186 US $ million.

Chart (5.11) – FDI inflow in trading sector



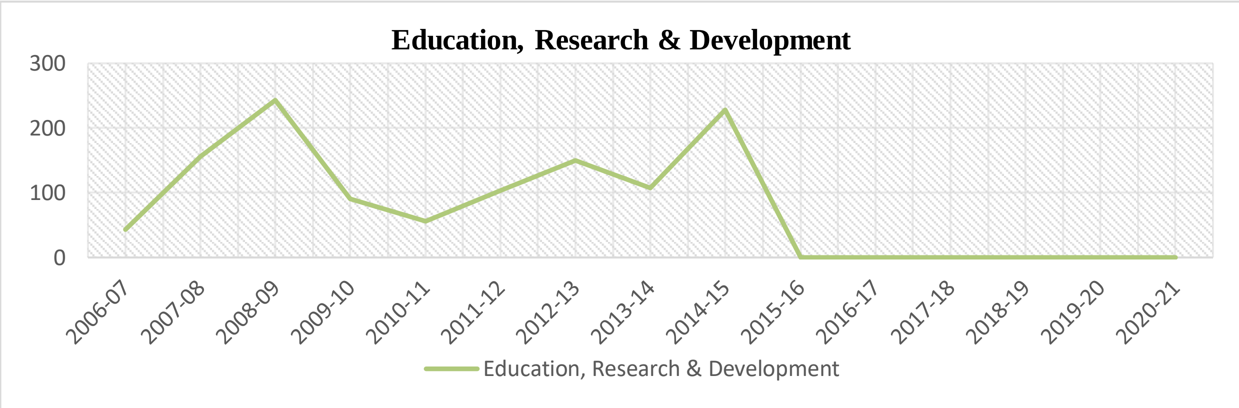
Sources:-World Bank Report

5.1.12 Education sector

Education is the backbone of a progressive society. India holds a significant place in the global education industry thanks to its extensive, competent institutions for higher education. However, there is room for further growth and development in the Indian education system. India's large population of about 500 million offers a great opportunity for the education sector.

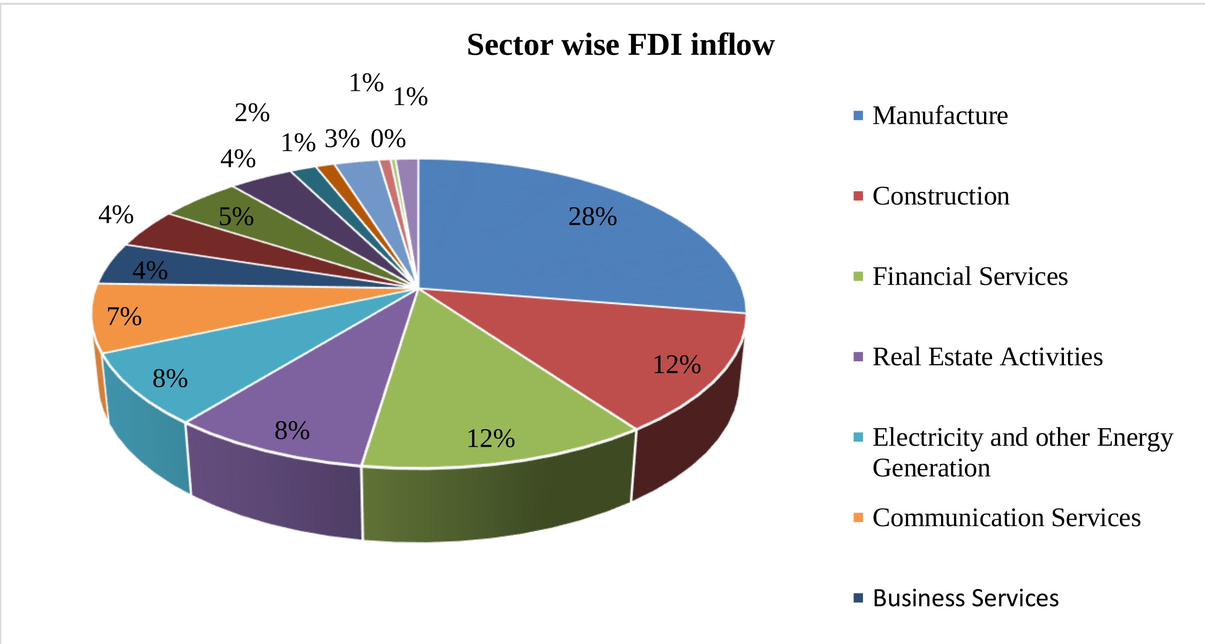
In education sector sector FDI inflow in 2006-07 was 43 US $ million, in 2009-10 it was 91 US $ million, in 2012-13 it was 150 million , in 2014-15 it was 228 US $ million, in 2018-19 it was 0 US $ million , in 2019-20 it was 0 US $ million it was reduces due to thecovid pandemic . in 2020-21 it was 0 US $ million.

Chart (5.12) – FDI inflow in Education And research development sector



Sources:-World Bank Report

Chart (5.13):- Sector wise FDI inflow in Percentage



Sources:-World Bank Report

Over all sectoral FDI equity inflow are based on the pie chart. In the chart FDI inflow In manufacturing sector FDI inflow was 28% , Construction sector FDI inflow was 12% , Financial service sector FDI inflow was 12%, real asset activities FDI inflow was8 %, in electricity and other energy generation sector FDI inflow was 8% , in communication service sector FDI inflow was 7%, in Hotel and restaurant FDI inflow was 4%, in mining it was 1% , in transport sector FDI inflow was 3%. So, most of the FDI equity inflow was done in manufacture sector, construction sector and financial services sector.

Table (5.1):- Sector wise inflow (Amount in US $ million)

sector wise inflow (Amount in US $ million)															
Sector/Year	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Manufacture	1,641	3,726	4,777	5,143	4,793	9,337	6,528	6,381	9,613	8,439	11,972	7,066	7,919	4,104	23,050
Construction	967	2,551	2,237	3,516	1,599	2,634	1,319	1,276	3,075	2,638	5,876	8,809	5,365	2,333	7,584
Financial Services	1,330	3,850	4,430	2,206	1,353	2,603	2,760	1,026	1,075	3,998	2,771	4,478	4,311	8,153	6,739
Real Estate Activities	431	1,336	1,886	2,191	444	340	197	201	2,551	3,547	3,732	4,070	6,372	4,914	2,960
Electricity and other Energy Generation	174	829	669	1,877	1,338	1,395	1,653	1,284	2,154	4,319	1,937	3,173	3,453	4,326	2,728
Communication Services	423	66	2,067	1,852	1,228	1,458	92	1,256	680	3,031	2,684	3,005	2,597	6,838	2,314
Business Services	2,425	1,158	643	1,554	569	1,590	643	521	1,284	889	430	452	749	3,684	1,750
Miscellaneous Services	298	1,901	1,458	888	509	801	552	941	1,640	1,363	891	1,267	1,019	1,937	1,746
Computer Services	824	1,035	1,647	866	843	736	247	934	586	4,141	1,564	1,281	2,009	1,906	989
Restaurants & Hotels	153	280	343	671	218	870	3,129	361	482	1,364	1,722	1,870	2,427	528	963
Retail & Wholesale Trade	47	200	294	536	391	567	551	1,139	686	112	105	405	213	443	671
Mining	42	461	105	268	592	204	69	24	131	394	205	347	736	564	401
Transport	165	816	401	220	344	410	213	311	129	1,022	1,816	835	1,226	2,546	278
Trading	82	176	400	198	156	6	140	0	202	596	141	82	247	217	186
Education, Research & Development	43	156	243	91	56	103	150	107	228	0	0	0	0	0	0
Others	262	884	1,097	384	506	419	43	293	232	215	470	226	102	137	187

Sources:-World Bank Report

5.2 Share of top Investing Countries FDI inflows.

Table (5.2):- Share of top Investing Country FDI Inflows

Country-wise Foreign Direct Investment (FDI) Inflows in India **SHARE OF TOP INVESTING COUNTRIES FDI INFLOWS** **(April 2000 to December 2021) (April 2000 to December 2021)**			
Countries	**Amount of FDI Inflows**		**%age with**
	Rs. in Crore	**US$ in Million**	**Inflows**
Mauritius	886416.4	154929.9	27.05
Singapore	825569.2	126778.3	22.13
United State of America (USA)	334531.9	51124.9	8.93
Netherland	248875.2	39301.56	6.86
Japan	217359.7	36366.3	6.35
United Kingdom	176298.1	31695.29	5.53
Germany	78179.69	13444.21	2.35
France	61899.67	10065.52	1.76
Switzerland	59802.84	9280.98	1.62
Northh Korea	32782.74	5147.69	0.9
Total FDI inflow	3494990	572928.5	--

Sources: **-** RBI Hand Book of Statics

In the above table show the share of top investing country FDI inflow (April 2000 to December 2021). The country Mauritius amount of FDI inflows in crore was 886416.4 and US $ in millions was 154929.9 and percentage with inflow was 27.05. The country Singapore amount of FDI inflows in crore was 825569.2 and US $ in millions was 126778.3 and percentage with inflow was 22.13 .The country USA amount of FDI inflows in crore was 334541.9 and US $ in millions was 51124.9 and percentage with inflow was 8.93 . The country Netherlands amount of FDI inflows in crore was 248875.2 and US $ in millions was 39301.56 and percentage with inflow was 6.86 .The country Japan amount of FDI inflows in crore was 217359.7 and US $ in millions was 36366.3 and percentage with inflow was 6.3. The country UK amount of FDI inflows in crore was 176298.1 and US $ in millions was 31695.29 and percentage with inflow was 5.53. The country Germany amount of FDI inflows in crore was 78179.69 and US $ in millions was 13444.21 and percentage with inflow was 2.35. The country France amount of FDI inflows in crore was 61899.67 and US $ in millions was 10065.52 and percentage with inflow was 1.76. The country Switzerland amount of FDI inflows in crore was 59802.84 and US $ in millions was 9280.98 and percentage with inflow was 1.62. The country North Korea amount of FDI inflows in crore was 32728.74 and US $ in millions was 5147.69 and percentage with inflow was 0.9. the total FDI inflow in the year 2000 to 2021, it was 3494990 in crore and in US million $ it was 572928.5 .

5.3 FDI equity inflows within States in INDIA.

Table (5.3) :- FDI equity inflows within States in INDIA.

				(In US$ Million)
States	**2019-2020**	**2020-2021**	**2021-2022**	**Cumulative FDI Equity**
Andhra Pradesh	205.96	85.85	11.28	303.08
Chandigarh	3.58	10.03	10.58	24.19
Delhi	3972.77	5471.05	665.22	10109.05
Goa	64.5	16.27	1.14	81.91
Gujarat	2591.08	21890.17	550.8	25032.05
Haryana	725.75	1697.01	134.3	2557.07
Himachal Pradesh	11.91	10.92	-	22.83
Jharkhand	1852.04	792.06	0.1	2644.19
Karnataka	4288.56	7670.49	1393.51	13352.57
Kerala	57.33	212.27	19.84	289.45
Madhya Pradesh	75.65	206.63	1.14	283.43
Maharashtra	7262.56	16169.79	824.72	24257.07
Odisha	**13.05**	**19.76**	**32.27**	**65.07**
Punjab	96.77	644.46	3.79	745.02
Rajasthan	189.18	272.22	11.41	472.81
Tamil Nadu	1006.07	2322.81	439.91	3768.79
Telangana	679.86	1155.49	224.47	2059.82
Uttar Pradesh	242.87	421.79	4.17	668.83
West Bengal	190.21	414.97	109.72	714.89
India	**23881.34**	**59635.54**	**4439.78**	**87956.66**

Sources: - RBI Hand Book of Statics

In the above table show the contribute the FDI equity in spacifics state in INDIA (2019 to 2022) .The state of Andhra Pradesh find the share of FDI equity in the year 2019-20 it was 205.96 $ million ,in 2020-21 it was 85.85 , in 2021-22 it was 11.28 and the cumulative FDI equity was 303.08 $ million. The state of Delhi find the share of FDI equity in the year 2019-20 it was 3972.77 $ million ,in 2020-21 it was 5471.05 , in 2021-22 it was 665.22 and the cumulative FDI equity was 10109.05 $ million. The state of Goa find the share of FDI equity in the year 2019-20 it was 64.5 $ million ,in 2020-21 it was 16.27 , in 2021-22 it was 1.14 and the cumulative FDI equity was 81.91 $ million. The state of Gujarat find the share of FDI equity in the year 2019-20 it was 2591.08 $ million ,in 2020-21 it was 21890.17 , in 2021-22 it was 550.8 and the cumulative FDI equity was 25032.05 $ million. The state of Haryana find the share of FDI equity in the year 2019-20 it was 725.75 $ million ,in

2020-21 it was 1697.01 , in 2021-22 it was 134.3 and the cumulative FDI equity was 2557.07 $ million. The state of Jharkhand find the share of FDI equity in the year 2019-20 it was 1852.04 $ million ,in 2020-21 it was 79.06 , in 2021-22 it was 0.1 and the cumulative FDI equity was 2644.19 $ million. The state of Karnataka find the share of FDI equity in the year 2019-20 it was 4288.56 $ million ,in 2020-21 it was 7670.49 , in 2021-22 it was 1393.51 and the cumulative FDI equity was 13352.57 $ million. The state of Kerala find the share of FDI equity in the year 2019-20 it was 57.33 $ million ,in 2020-21 it was 212.27 , in 2021-22 it was 19.84 and the cumulative FDI equity was 289.45 $ million. The state of Madhya Pradesh find the share of FDI equity in the year 2019-20 it was 75.65 $ million ,in 2020-21 it was 206.63 , in 2021-22 it was 1.14 and the cumulative FDI equity was 283.43 $ million. The state of Maharashtra find the share of FDI equity in the year 2019-20 it was 7262.56 $ million ,in 2020-21 it was 16169.79 , in 2021-22 it was 824.72 and the cumulative FDI equity was 24257.07 $ million. **The state of Odisha find the share of FDI equity in the year 2019-20 it was 13.05 $ million ,in 2020-21 it was 19.76 , in 2021-22 it was 32.27 and the cumulative FDI equity was 65.07 $ million.** The state of Tamil Nadu find the share of FDI equity in the year 2019-20 it was 1006.07 $ million ,in 2020-21 it was 2322.81 , in 2021-22 it was 439.91 and the cumulative FDI equity was 3768.79 $ million. The state of West Bengal find the share of FDI equity in the year 2019-20 it was 190.21 $ million ,in 2020-21 it was 414.97 , in 2021-22 it was 109.72 and the cumulative FDI equity was 714.89 $ million. It shows the time frame FDI equity distribution within the state was increases.

5.4 Financial Position in INDIA

FIN. Position stands for Financial Position. Financial Position (Chart-5.6, Table- 5.6) is the ratio of external debts to exports. It is a strong indicator of the soundness of any economy. It shows that external debts are covered from the exports earning of a country.

Table (5.4):- Financial Position In INDIA

Financial Position (amount in RS. Crores)		
Years	**Exports**	**Debt**
2000-01	**44041**	**252910**
2004-05	**53688**	**280746**
2005-06	**69751**	**290418**
2006-07	**82674**	**311685**
2007-08	**106353**	**320728**
2008-09	**118817**	**335827**
2009-10	**130100**	**369682**
2010-11	**139752**	**411297**
2011-12	**159561**	**428550**
2012-13	**203571**	**472625**
2013-14	**209018**	**482328**
2014-15	**255137**	**498804**
2015-16	**293367**	**491078**
2016-17	**375340**	**581802**
2017-18	**456418**	**616144**
2018-19	**571779**	**746918**
2019-20	**655864**	**897955**
2020-21	**766935**	**1169575**

Source:- RBI Hand Book Of statics

External debt of India refers to the total amount of external debts taken by India in a particular year, its repayments as well as the outstanding debts amounts, if any. India's external debts, as of march 2019-20 were Rs. 897955, recording an increase of Rs.1169575 crores in march 2020-21 mainly due to the increase in trade credits. Among the composition of external debt, the share of commercial borrowings was the highest at 27.3% on March 2020-21, followed by short–term debt (21.5%), NRI deposits (18%) and Multilateral debt (17%).Due to arise in short – term trade credits, the share of short – term debt in the total debt increased to 21.5% in march 2020, from 20.9% in march 2019. As a result the short – term debt accounted for 40.6% of the total external debt on March 2009. In 2007 India was rated the 5th most indebted country according to an international comparison of external debt of the twenty most indebted countries.

5.5 MODEL-1

FOREIGN DIRECT INVESTMENT MODEL

Variable	Coefficient	Standard Error	t- Statistic
Constant	26.25	.126	207*
Trade GDP	11.79	7.9	1.5*
Reserves GDP	1.44	3.8	.41
Exchange rate	7.06	9.9	.72**
Financial health	15.2	35	.45
R&DGDP	-582.14	704	.83**

Sources:- Calculated Through SPSS

FDI=f[TRADEGDP, R&DGDP, EXR, RESGDP, FIN. Position]
R^2 = 0.623 Adjusted R^2= 0.466

D-W Statistic = .98, F-ratio = 7.74

Note: * = Significant at 0.10 levels; ** = Significant at 0.25 level.

In Foreign Direct Investment Model (Table-5.), it is found that all variables are statistically significant. Further the results of Foreign Direct Investment Model shows that Trade GDP, R&DGDP, Financial Position (FIN. Position), exchange rate (EXR), and Reserves GDP (RESGDP) are the important macroeconomic determinants of FDI inflows in India. The regression results of (Table-5.) shows that Trade GDP, Reserves GDP, Financial Position, exchange rate are the pull factors for FDI inflows in the country whereas R&DGDP

acts as the deterrent force in attracting FDI flows in the country. As the regression results reveal that R&DGDP exchange rate does not portray their respective predicted signs. However, R&DGDP shows the unexpected negative sign instead of positive sign and exchange rate shows positive sign instead of expected negative sign. In other words, all variables included in the foreign direct investment model shows their predicted signs (Table – 4.9) except the two variables (i.e. Exchange rate & R&DGDP) which deviate from their respective predicted signs. The reason for this deviation is due to the appreciation of Indian Rupee in the international market and low expenditure on R&D activities in the activities in the country.

5.6 MODEL-2

ECONOMIC GROWTH MODEL

GDPG = f [FDIG]

Variable	Coefficient	Standard Error	t- Statistic
Constant	.060322925	0.00007393156391	815.92
FDIG	0.039174416	.020661633	1.8959

Sources:- Calculated Through SPSS

R^2= 0.959 Adjusted R^2= 0.956

D-W Statistic = 1.0128, F-ratio = 28.076

Note: * = Significant at 1%

In the Economic Growth Model (Table – 5.), estimated coefficient on foreign direct investment has a positive relationship with Gross Domestic Product growth (GDPG). It is revealed from the analysis that FDI is a significant factor influencing the level of economic growth in India. The coefficient of determination, i.e. the value of R^2 explains 95.6% level of economic growth by foreign direct investment in India. The F-statistics value also explains the significant relationship between the level of economic growth and FDI inflows in India. D-W statistic value is found 1.0128 which confirms that there is no autocorrelation problem in the analysis.

Thus, the findings of the economic growth model show that FDI is a vital and significant factor influencing the level of growth in India.

CONCLUSION

It can be observed from the above analysis that at the sectoral level of the Indian economy, FDI has helped to raise the output, productivity and export in some sectors. However, it can be observed from the result of the PCONT that a very minimal relation in these variables (output, labour productivity and export) is established by the FDI inflows into the sectors. This may be due to the low flow of FDI into India both at the macro level as well as at the sectoral level. It implies that the spirit in which the economy has been liberalized and exposed to the world economy at the late eighties and early nineties has not been achieved after so many years. This calls for a judicious policy decision towards FDI at the sectoral level. Therefore, in the eve of India's plan for further opening up of the economy, it is advisable to open up the export oriented sectors and a higher growth of the economy could be achieved through the growth of these sectors.

CHAPTER - VI

CHPTER - VI

FDI POLICY IN INDIA

6.1 RECENT FDI POLICY

6.2 SUGETION

CHAPTER – VI

6.1 FDI POLICY IN INDI

The current policies with regard to inward FDI flow in India can be argued to be liberal. Post-entry, foreign firms are afforded national treatment in general, while there are some pre-investment scrutiny requirements depending on the industry in which the investment is being made. The differential treatment is limited to a few entry rules spelling out the proportion of equity that the foreign firm can hold in an Indian (registered) company or business. There are only a few banned sectors (like lotteriesand gaming and legal services) and some sectors with limits on foreignequity proportion.

As noted earlier, the entry rules are clear and well defined and equity limits for foreign investment in selected sectors are quite explicit and well known. The procedural route has now been made more simple and non-discriminatory. There exist sector specific incentives, but these are also accorded to domestic investors. To a large extent, the incentiveshave been made transparent and rule-based.

What emerges from the above discussion is that India now has in placea liberal policy regime towards FDI. However, investment climate in Indiaappears to be far less than satisfactory as reflected by a huge difference between the approved and actual inflows of FDI.

Policy Regime:

At the outset, it should be noted that the delays mentioned by foreign investors are not at the stage of FDI approval per se, i.e., at the entrypoint, whether through RBI automatic route or FIPB approval. By and large, the FIPB considers applications on the basis of notified guidelines and disposes them within a 6-8 weeks timeframe, as has been laid downby the Cabinet.

The major implementation problems are encountered at the state level, as project implementation takes place at the state level. The report of the Steering Group has mentioned that the domestic policyframework affects all investment, whether the investor is an Indian or a foreigner. The policy problems, identified by the report, acting as additional hurdles for FDI are laws, regulatory systems and government monopolies that do not have contemporary relevance. This is based on feedback of different consulting firms who made presentation to the Steering Group.

Bureaucracy and red tapism topped the list of investor concerns as theywere cited by 39 percent of respondents in the A T Kearney survey. Of the three stages of a project, namely general approval, clearance and implementation, the second was the most oppressive. The respondents of the survey also indicated that the division of execution mechanism between the central and state governments in the treatment of foreign investors could undermine the FDI promotion efforts of the central government. Bureaucracy in general is quite uncooperative in extending the necessary facilities to any project that is being set up.

It is important to note that weak credibility of regulatory systems and multiple and conflicting roles of agencies and government can have more adverse impact on new FDI investors compared to domestic investors. For example, the outdated Fruit Product Order (FPO) and Prevention of Food Adulteration Act is a major hurdle for FDI in food processing. As a Task Force had recommended some years ago, we need to formulate a single integrated Food Act (including weights & measures).

Similarly, labour laws discourage the entry of Greenfield FDI because of the fear that it would not be possible to downsize if and when there is a downturn in business. Labour laws, rules and procedures have led to deterioration in the work culture and the comparative advantage recognised by responsible trade unions.

The Urban Land Ceiling Act and Rent Control Act are serious constraints on the entire real estate sector. Recently the Centre has repealed the Urban Land Ceiling Act, but each state has to issue a notification to repeal the Act in that state. The Central Government has set up an Urban Reform Facility to provide funds to states that repeal the State Land Ceiling Act, reform the Rent Control Act and carry out other urban reforms.

At present, the entire FDI policy and procedures, as notified by the government from time to time, are duly incorporated under Foreign Exchange Management Act (FEMA) regulations. Many of the entry conditions had greater justification at the time they were imposed. With a much stronger and more competitive economy many of these can be removed. To increase FDI flows, the Steering Committee has recommended that the entry barriers to FDI should be further relaxed .

With regard to policy regime, the committee has recommended the following:

- Enact a Foreign Investment Promotion Law (FIPL) that incorporates and integrates aspects relevant to promotion of FDI.
- Encourage states to enact a special investment law relating to infrastructure to expedite all investments in infrastructure sectors.
- FIPB should be encouraged to give initial central level approvals wherepossible.
- Change government's Rules of Business to empower FIIA to expedite the processing of administrative and policy approvals.
- Sectoral FDI caps should be reduced to the minimum and entry barrierseliminated.
- To attract FDI, the broad approach should be one of targeting specific companies in specific sectors.
- The informational aspects of the strategy should be refined in the light of the perceived advantages and disadvantages of India as an investment destination.
- The Special Economic Zones (SEZs) should be developed as the most competitive destination for export related FDI in the world, by simplifying applicable laws, rules and administrative procedures and reducing redtape levels.

Domestic policy reforms in the power sector, urban infrastructure andreal estate, and de-control/de-licensing should be expedited to promoteprivate, domestic and foreign investment

6.2 SUGGESTIONS

Thus, it is found that FDI as a strategic component of investment is needed by India for its sustained economic growth and development. FDI is necessary for creation of jobs, expansion 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. So, the study recommends the following suggestions:

- ➢ The policy makers should design policies where foreign investment can be utilised as means of enhancing domestic production, savings, and exports; as medium of technological learning and technology diffusion and also in providing access to the external market.
- ➢ It is suggested that the government should push for the speedy improvement of infrastructure sector's requirements which are important for diversification of business

activities.

- Government should ensure the equitable distribution of FDI inflows among states.
- Government should open doors to foreign companies in the export – oriented services which could increase the demand of unskilled workers and low skilled services and also increases the wage level in these services.
- Government must target at attracting specific types of FDI that are able to generate spillovers effects in the overall economy.
- The government must promote policies which allow development process starts from within (i.e. through productive capacity and by absorptive capacity).
- It is also suggested that the government must promote sustainable development through FDI by further strengthening of education, health and R&D system, political involvement of people and by ensuring personal security of the citizens.
- Government must pay attention to the emerging Asian continent as the new economic power – house of business transaction and try to boost the trade within this region through bilateral, multilateral agreements and also concludes FTAs with the emerging economic Asian giants.
- FDI should be guided so as to establish deeper linkages with the economy, which would stabilize the economy (e.g. improves the financial position, facilitates exports, stabilize the exchange rates and providing to investors a sound and reliable macroeconomic environment.
- As the appreciation of Indian rupee in the international market is providing golden opportunity to the policy makers to attract more FDI in Greenfield projects as compared to Brownfield investment. So the government must invite Greenfield investments.
- Finally, it is suggested that the policy makers should ensure optimum utilisation of funds and timely implementation of projects. It is also observed that the realisation of approved FDI into actual disbursement is quite low. It is also suggested that the government while

pursuing prudent policies must also exercise strict control over inefficient bureaucracy, red - tapism, and the rampant corruption, so that investor's confidence can be maintained for attracting more FDI inflows to India. Last but not least, the study suggests that the government ensures FDI quality rather than its magnitude.

Indeed, India needs a business environment which is conducive to the needs of business. As foreign investors doesn't look for fiscal concessions or special incentives but they are more of a mind in having access to a consolidated document that specified official procedures, rules and regulations, clearance, and opportunities in India. In fact, this can be achieved only if India implements its second generation reforms in totality and in right direction. Then no doubt the third generation economic reforms make India not only favorable FDI destination in the world but also set an example to the rest of the world by achieving what is predicted by Goldman Sachs (in 2003, 2007) that from 2007 to 2020, India's GDP per capita in US$ terms will quadruple and the Indian economy will overtake France and Italy by 2020, Germany, UK and Russia by 2025, Japan by 2035 and US by 2043.

CHAPTER - VII

CHAPTER – VII

7.1 MAJOR FINDINGS

7.2 CONCLUSION

CHAPTER – VII

7.1 MAJOR FINDNGS OF THE STUDY

This chapter highlights the main findings of the study. These are the mention in below.

It is seen from the analysis that large amount of FDI flows are confined to the developed economies. But there is a marked increase in the FDI inflows to developing economies from 1997 onwards.

- Among developing nations, Asian countries received maximum share (16%) of FDI inflows as compared to other emerging developing countries of Latin America (8.7 %) and Africa (2%).
- India's share in World FDI rose to 1.3% in 2019 as compared to 0.7% in 2005.

- This can be attributed to the economic reform process of the country for the last eighteen years.
- China is the most attractive destination and the major recipient of global FDI inflows among emerging nations. India is at 5th position among the major emerging destinations of global FDI inflows.

- India, with a share of nearly 75% emerged as a major recipient of global FDI inflows in South Asia region in 2019.
- While comparing the share of FDI inflows of China and India during this decade it is found that India's share is barely 2.8 percent while china's share is 21.7 percent.

- Although India's share in global FDI has increased considerably, but the pace of FDI inflows has been slower than China, Singapore, Brazil, and Russia.
- Due to the continued economic liberalization since 1991, India has seen a decade of 7

plus percent of economic growth. Infact, India's economy has been growing more than 9 percent for three consecutive years since 2011 which makes the country a prominent performer among global economies. At present India is the 4th largest and 2nd fastest growing economy in the world. It is the 11th largest economy in terms of industrial output and has the 3rd largest pool of scientific and technical manpower.

- India has considerably decreased its fiscal deficit from 4.5 percent in 2003-04 to
- 2.7 percent in 2014-15 and revenue deficit from 3.6 percent to 1.1 percent in 2014-15.
- There has been a generous flow of FDI in India since 1991 and its overall direction also remained the same over the years irrespective of the ruling party.
- India has received increased NRI's deposits and commercial borrowings largely because of its rate of economic growth and stability in the political environment of the country.
- Economic reform process since 1991 have paves way for increasing foreign exchange reserves to US$ 251985 millions as against US$ 9220 millions in 1991- 92.
- During the period under study it is found that India's GDP crossed one trillion dollar mark in 2017. Its domestic saving ratio to GDP also increases from 29.8 percent in 2014-15 to 37 percent in 2017-18.
- It is observed that India received FDI inflows of Rs.492302 crore during 2000- 2010 as compared to Rs. 84806 crore during 1991-1999. India received a cumulative FDI flow of Rs. 577108 crore during 1991to march 2010.
- It is observed that major FDI inflows in India are concluded through automatic route and acquisition of existing shares route than through FIPB, SIA route during 1991-2020.
- In order to have a generous flow of FDI, India has maintained Double Tax Avoidance Agreements (DTAA) with nearly 70 countries of the world.
- India has signed 57 (upto 2006) numbers of Bilateral Investments Treaties (BITs).
- Among the sectors, services sector received the highest percentage of FDI inflows in 2018. Other major sectors receiving the large inflows of FDI apart from services sector

are electrical and electronics, telecommunications, transportations and construction activities etc. India has received maximum number of financial collaborations as compared to technical collaborations.

- India received large amount of FDI from Mauritius (nearly 40 percent of the total FDI inflows) apart from USA (8.8 percent), Singapore (7.2 percent), U.K (6.1 percent), Netherlands (4.4 percent) and Japan (3.4 percent).

7.2 CONCLUSION

Finally, it may be concluded that developing countries has make their presence felt in the economics of developed nations by receiving a descent amount of FDI in the last three decades. Although India is not the most preferred destination of global FDI, but there has been a generous flow of FDI in India since 1991. It has become the 2nd fastest growing economy of the world. India has substantially increased its list of source countries in the post – liberalisation era. India has signed a number of bilateral and multilateral trade agreements with developed and developing nations. India as the founding member of GATT, WTO, a signatory member of SAFTA and a member of MIGA is making its presence felt in the economic landscape of globalised economies. The economic reform process started in 1991 helps in creating a conducive and healthy atmosphere for foreign investors and thus, resulting in substantial amount of FDI inflows in the country.

No doubt, FDI plays a crucial role in enhancing the economic growth and development of the country. Moreover, FDI as a strategic component of investment is needed by India for achieving the objectives of its second generation of economic reforms and maintaining this pace of growth and development of the economy.

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THANK YOU