

Trend of Foreign Direct Investment inflow in India and its impression on Indian Economic Growth

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ABSTRACT:

FDI, or foreign direct investment, plays a major role in India's economic expansion. It is an essential tool for a country's economic integration with the world. The factors affecting the growth and sectoral distribution of foreign direct investment inflows to India over the past few decades are examined in this study. Due to the liberalisation efforts started in the 1990s and the ensuing regulatory changes, India has become a popular investment destination for foreign investors. Despite FDI's significant contributions to industries like manufacturing, services, and information technology, this study focuses on important metrics like GDP growth, employment creation, technological advancement, infrastructure development, regional distribution disparities, and sectoral concentration in order to further examine the relationship between FDI and India's economic progress.

The policy recommendations presented in the paper's conclusion aim to optimize the benefits of foreign direct investment inflow and promote equitable economic growth in India.

INTRODUCTION:

Foreign Direct Investment (FDI) is the term used to describe an investment made directly into a country's production and services by a company based in another country, either through the purchase of a company or through business expansion in that nation. It's an alternative way to conduct business abroad (P. Subba Rao 2009). Particularly since the 1991 economic liberalization reforms, foreign direct investment (FDI) has been a major source of capital, technological advancement, and job creation for India. These changes signal a strategic change in India's economic policies, allowing foreign investors to enter a number of industries and fostering an atmosphere that encouraged international involvement in the nation's development. India's FDI inflow trend has changed dramatically over time, reflecting the nation's rising economic prominence and capacity to draw in foreign capital. From modest beginnings, India's large consumer market, highly skilled workforce, and developing infrastructure have made it one of the world's top FDI destinations. Important FDI inflows have been seen in key industries like manufacturing, financial services, telecommunications, and information technology, all of which have supported strong economic growth.

However, Foreign direct investment and economic growth have a complicated and multifaceted relationship. Although, foreign direct investment (FDI) contributes capital and technology, its effects differ depending on the region and industry and are frequently impacted by national policies, market dynamics, and worldwide economic trends. The purpose of this study is to examine the pattern of foreign direct investment inflow into India, comprehend its factors, and evaluate its influence on the nation's economic development.

By analysing sectoral and regional dimensions, this work seeks to provide insights into how Foreign Direct Investment can be leveraged more effectively to promote inclusive and sustainable growth in India.

LITERATURES REVIEW:

1. **Herrez (2010)** According to the study 50 countries can benefit from foreign direct investment (FDI). The study demonstrates a positive correlation between FDI and economic growth using the system co-integration method and cross section growth regression method. Long term causation demonstrates that as GDP rises and business become more productive, they are able to invest overseas which has favourable and sustainable knock-on consequences.
2. **Yadav, N (2018)** investigates the impact of foreign direct investment (FDI) on India's economy between 2000 and 2014. This analysis found that FDI significantly and favourable affects GDP.
3. **Veena, P & Jain, S (2022)** The trend of foreign direct investment FDI inflows into India from 2000 to 2022 are depicted in the study. The report also list the countries that have given India foreign direct investment in breakdown down the FDI in follows by industry from April 2000 to March 2022. Regression analysis was used to examine the link between foreign direct investment and other economic variables, including GDP growth, exports of goods and service and foreign direct reserve.
4. **Shobha, Dr. K (2012)** the FDI in flows into India from 1991 to 1992 to 2010 to 11 are cover in her paper the paper also highlights the many strategies that the Indian government has implemented to increase foreign direct investment into our nation. To assess the impact of foreign direct investment on economic growth, two models were developed for the study. An economic growth model demonstrates how FDI contributes to economic growth, a foreign direct investment model depicts the variables that influence FDI. The GDP at factor cost is one of the factor related to FDI inflows in the current study
5. **Malhotra, B (2014)** this study aims to examine how foreign direct investment affects the Indian economy, particularly in the week of two decades of economic reforms. It also examines the challenges India faces in attempting to obtain a competitive advantage in the international FDI market. The study outlines the key policy implication from this analysis while also emphasising the challenges in understanding FDI data in India

OBJECTIVE OF THE STUDY:

- To analyse the growth, patterns and trend of foreign direct investment (FDI), FDI Equity inflow and Investment by FII's in India since 2000-01.
- To assess the proportion of FDI inflow in India from top investing nations
- To assess the sector wise FDI Equity inflow in India.
- to analyse the relationship between FDI Equity inflow and India's economic growth.

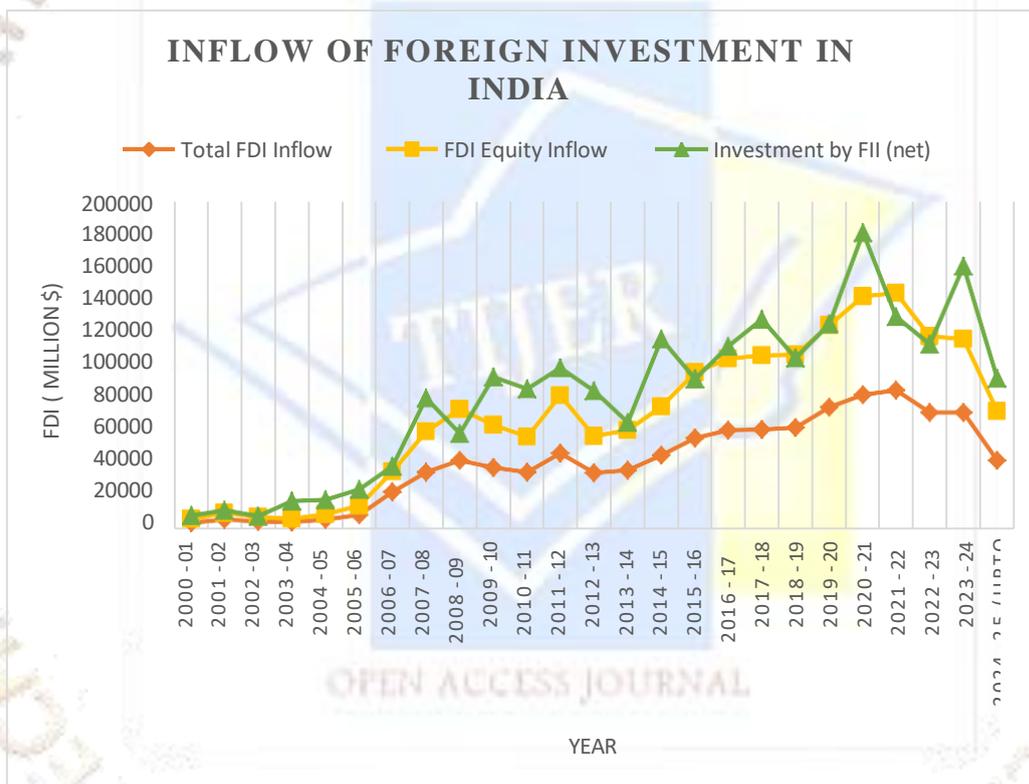
METHODOLOGY AND DATA ANALYSIS:

This research is descriptive and empirical in nature, based on secondary data collected from various sources i.e. World Bank reports, Reserve Bank of India, publications from Department of Promotion of Industry and Internal Trade (DPIIT), Economic survey reports etc. The study examines the relationship between FDI Equity inflow in India and GDP. For studying the relationship, the data are taken from 2000-01 to 2023-24 and regression analysis is used to analyse the relationship between GDP and FDI Equity inflow. Ms-Excel and EViews are used for analysis and visualise the results.

INFLOW OF FOREIGN DIRECT INVESTMENT (FDI) IN INDIA:

After LPG Reforms in 1991, India witnessed a substantial rise in FDI inflows which is shown in figure first below, The Figure:1 illustrates the Total FDI, FDI Equity Inflow and Investment by FII’s in India (in USD million) from the fiscal year 2000-01 to 2024-25 (up to sept., 2024).

Figure: 1



Source: www.dpiit.gov.in

Total FDI inflow in India from April,2000 to Sept, 2024:

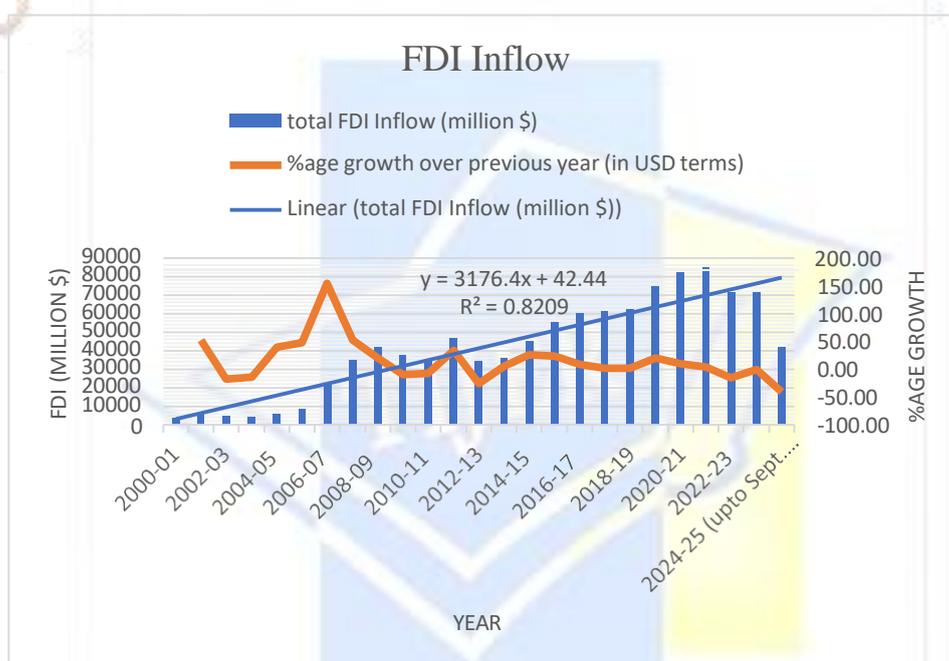
Cumulative FDI inflow = \$1033400 million Cumulative FDI Equity inflow = \$708775 million Cumulative Investment by FII’s = \$299208 million

Figure 2 shows that During the 2000-01 to 2004-05, FDI inflows were remained stationary ranging from 4 billion to 6 billion USD. However, there was a steady increase, particularly from 2004-05 onwards. The growth in FDI during this period can be attributed to economic liberalization policies implemented in the

early 1990s, which began to show results by attracting more foreign investments. There was a significant jump in FDI inflows starting from 2006-07, reaching over \$20,000 million and peaking around \$40,000 million by 2008-

09. From 2014-15 onwards, there was a consistent increase in FDI inflows, reaching new highs above 84.8 billion USD in year 2021-22, followed by a slight decline in the subsequent years. The recent decline could be influenced by global economic uncertainties, geopolitical tensions, and changes in investment patterns as the world recovers and adjusts post- pandemic. The trend of FDI inflows in India has shown a general upward trajectory with periods of fluctuations influenced by global economic conditions, domestic policies, and specific sectoral developments. While there have been record highs, recent declines suggest the need for continuous policy adaptation to maintain India's attractiveness as a destination for foreign investments.

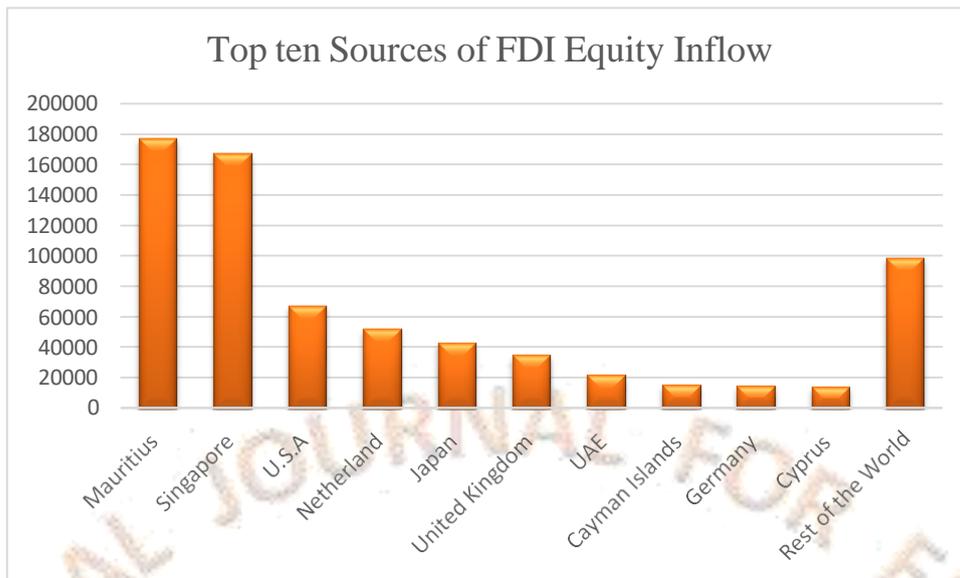
Figure: 2



Source: www.dpiit.gov.in

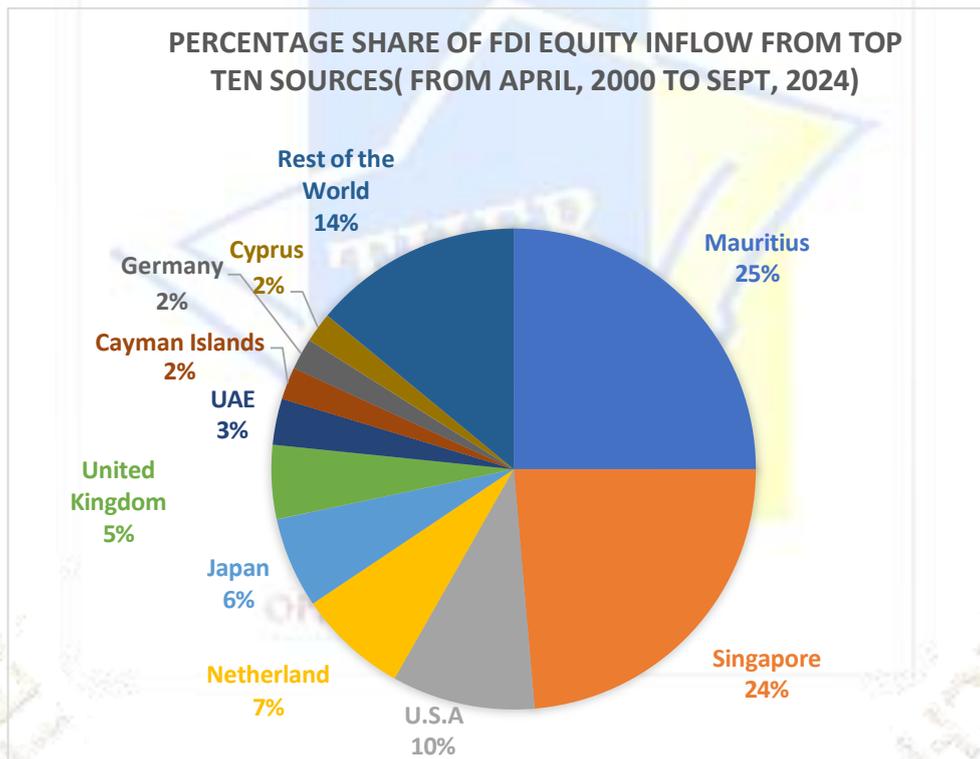
Figure 3. represents the cumulative FDI Equity inflow in India from 2000-01 to 2024-25(up to sept.) from top ten investing nations. Mauritius is top source of India's FDI inflow followed by Singapore, U.S.A, Netherland, Japan, UK, UAE, Cayman Islands, Germany and Cyprus respectively.

Figure.3



Source: www.dpiit.gov.in

Figure. 4



Source: www.dpiit.gov.in

Figure 4, represents the proportionate share of FDI Equity inflows coming from top ten investing nations from April, 2000 to Sept, 2024. Mauritius shares 1/4th of total FDI Equity inflow in India, followed by Singapore (24%) and USA (10%). This is largely due to the favourable tax treaty between India and Mauritius, which offers tax advantages for investors. Singapore is another major source of FDI, benefiting from strong economic ties and favourable bilateral agreements with India. The United States is a significant investor in India, reflecting the strong economic and strategic partnership between the two

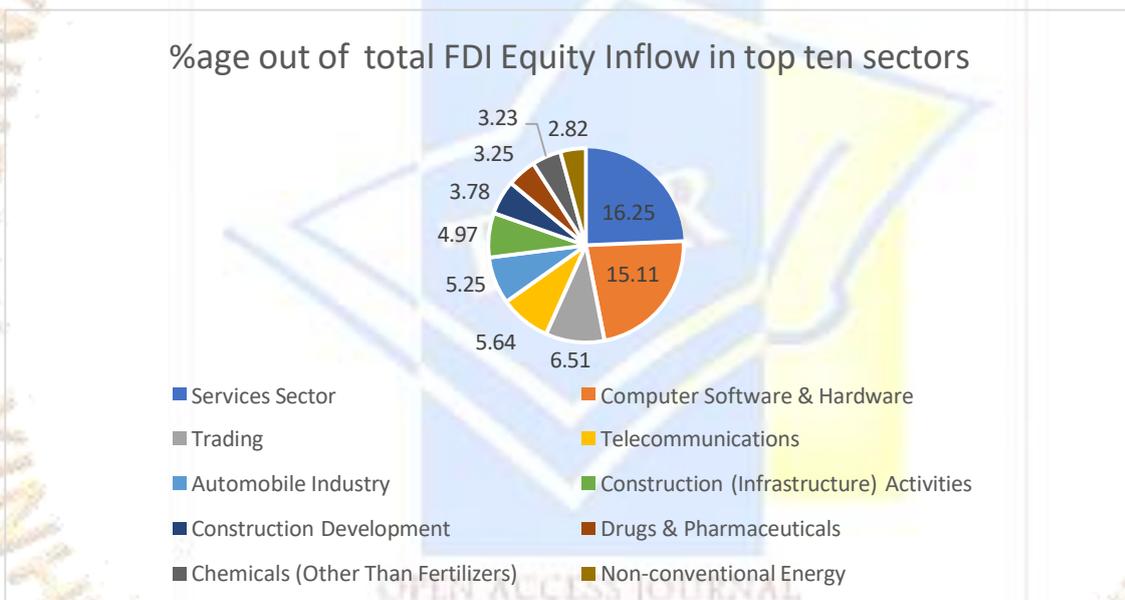
countries where major investments are seen in technology, telecommunications, and financial services. Netherlands, Japan, UK, UAE, Germany, Cyprus, and Cayman Island are the other major investing countries

Figure.5



Source: www.dpiit.gov.in

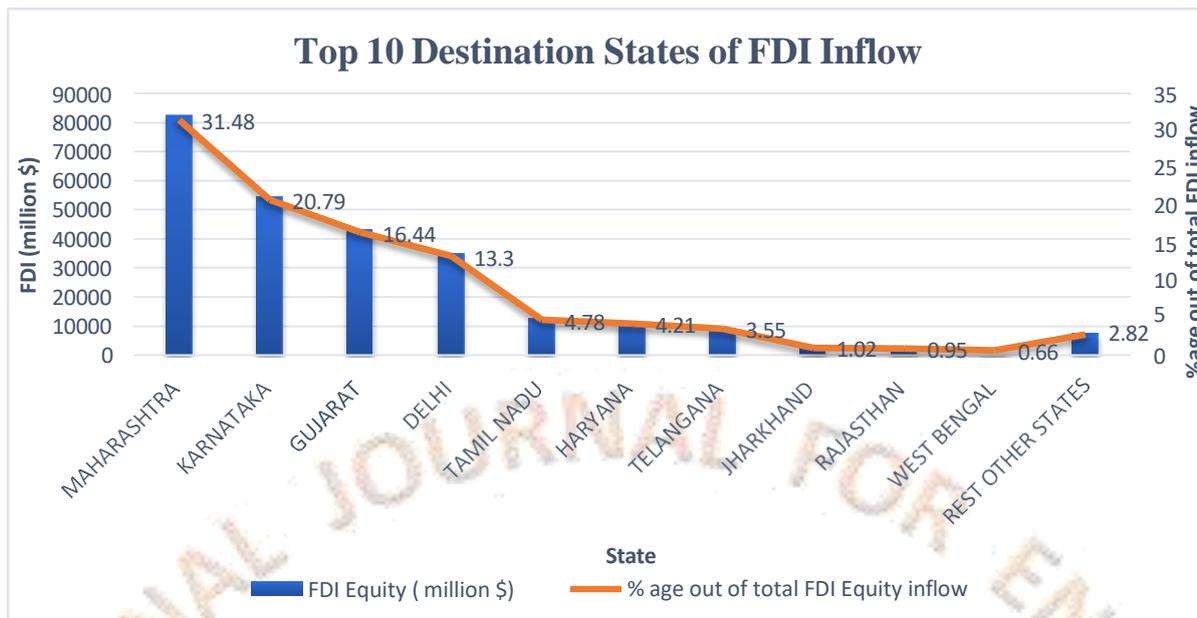
Figure.6



Source: www.dpiit.gov.in

Figures 5 and 6, present top sectors attracting highest FDI equity inflow in India. Figure represents cumulative FDI equity inflow in top ten sectors from 2000-01 to 2024-25 (up to Sept,2024), while Figure 5 represents percentage share of FDI equity coming in these sectors during that period. The services sector is top ranks in FDI inflows. Service sector alone attracts 16.25% to total FDI equity followed by computer software and hardware, reflecting India's robust growth in financial services, insurance, and business process outsourcing (BPO). The services sector and computer software & hardware lead the way, reflecting India's strengths in IT and service industries. Other significant sectors include trading (6.51%), telecommunications (5.64%), and automobile industry y (5.25%), Construction (infrastructure) (4.97%) etc, each playing a critical role in India's growth.

Figure.7



Source: www.dpiit.gov.in

The Figure:7, illustrates cumulative FDI equity inflow (from Oct,2019 to Sept,2024) and the percentage distribution of total FDI equity inflows across various Indian states and Union Territories (UTs). Maharashtra is the leading recipient of FDI in India, attracting nearly 31.48 % of the total inflows. Mumbai being the financial hub of India, offering a favourable business environment, robust infrastructure, and a large market. Karnataka is the second- largest recipient of FDI, 20.79%. Bangalore, known as the Silicon Valley of India, has a strong presence of IT and technology companies. Gujarat ranks third in terms of FDI inflows with 16.44 % inflow. Delhi's strategic importance as the capital city and its developed infrastructure make it a fourth attractive destination for investors, attracting 13.3% of total FDI equity. Other states like Tamil Nadu, Haryana and Telangana also attract substantial investments, driven by their industrial capabilities and strategic advantages. The variation in FDI inflows need continuous policy efforts to promote balanced regional development and enhance the attractiveness of lesser-recipient states for foreign investors.

RELATIONSHIP BETWEEN GDP AND FDI EQUITY INFLOW:

The relationship between foreign direct investment (FDI) and GDP growth is intertwined. FDI is considered as a driver of economic growth. FDI contributes directly to GDP growth by increasing the capital available for investment in various sectors in the economy, leading to higher output and productivity. FDI brings new capital which can be used to expand exiting industries and developed new one. The regression analysis is used to investigate the impact of FDI Equity inflow on GDP. For studying the relationship, the data are taken from 2000-01 to 2023-24.

GDP and FDI Equity Inflow in India

YEAR	GDP at constant market price (base year 2011-12) in crore	FDI Equity Inflow (in crore)
2000-01	4326735.898	10733
2001-02	4535456.178	18654
2002-03	4707983.811	12871
2003-04	5078049.299	10064
2004-05	5480379.926	14653
2005-06	5914614.027	24584
2006-07	6391375.247	56390
2007-08	6881006.684	98642
2008-09	7093402.584	142829
2009-10	7651078.01	123120
2010-11	8301234.844	97320
2011-12	8736328.711	165146
2012-13	9213016.662	121907
2013-14	9801369.876	147518
2014-15	10527673.63	181682
2015-16	11369493.14	262322
2016-17	12308193.22	291696
2017-18	13144582.14	288889
2018-19	13992913.94	309867
2019-20	14534640.78	353557
2020-21	13694869.24	442569
2021-22	15021846.27	437188
2022-23	16071428.57	367435
2023-24	17381721.91	367899

Source: <https://data.rbi.org.in> (MACRO-ECONOMIC AGGREGATES (At Constant Prices))

& www.dpiit.gov.in

Dependent Variable: GDP Method: Least Squares Date: 01/10/25 Time: 10:24 Sample: 1 24
Included observations: 24

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4846138.	390602.0	12.40684	0.0000
FDI	26.64776	1.696581	15.70674	0.0000
R-squared	0.918125	Mean dependent var	9673308.	
Adjusted R-squared	0.914403	S.D. dependent var	4036739.	
S.E. of regression	1181026.	Akaike info criterion	30.88132	
Sum squared resid	3.07E+13	Schwarz criterion	30.97949	
Log likelihood	-368.5758	Hannan-Quinn criter.	30.90736	
F-statistic	246.7018	Durbin-Watson stat	1.143236	
Prob(F-statistic)	0.000000			

Model equation: $GDP = 4846138.41537 + 26.6477607725 * FDI$

R-squared: represent the coefficient of determination or goodness of fit of a model.

Here, value of R-squared = 0.91, which means 91% of determination of depend variable (GDP) is explained by independent variable (FDI Equity).

Dependent Variable GDP is regressed on predicting variable FDI Equity to test null hypothesis, H_0 .

Null hypothesis H_0 : FDI equity inflow has no significant impact on GDP.

Alternative hypothesis H_1 : FDI equity inflow has a considerable impact on GDP.

Hypothesis	Beta coefficient	R-squared	F-statistics	t-statistics	P-value	Sig. F	Hypothesis Supported
H_0	26.65	0.91	246.7	15.70	0.000	0.000	No

If P-value is < 0.05 , then null hypothesis, H_0 is rejected.

Since P-value is $0.000 < 0.05$, then we reject null hypothesis H_0 . Therefore, alternate hypothesis H_1 is being accepted. Positive sign of beta coefficient shows direction of relationship. There is a strong and positive effect of FDI equity inflow on GDP.

To check the normality of distribution of residuals, Jarque-Bera test is being used. Jarque- Bera= 0.868123 and p-value is $0.647873 > 0.05$, we can't reject the null hypothesis. Thus, residuals are normally distributed. Jarque- Bera test assumes residuals are normally distributed (H_0).

FINDINGS:

1. The inflow of FDI in India is showing a positive trend as shown in fig. 1. That is a positive signal for India's economic growth.
2. Making Indian Economy as one of the most favoured investment destinations for developed as well as developing nations.
3. The FDI is significantly contributing in India's economic development as it has a strong and positive correlation between FDI and India's GDP.
4. Service sector in India is very robust and one of fastest growing service sector in the world, attracting highest FDI inflow in last 25 years followed by Computer software and hardware industries.
5. The highest FDI inflow in India comes from Mauritius (25%), followed by Singapore (24%) and U.S.A. (10%) respectively from 2000 upto sept, 2024.
6. Maharashtra is top destination of FDI inflow in India from 2019 to sept, 2024. Maharashtra alone attracts 31.5% total FDI equity followed by Karnatak (20.8%), Gujrat (16.4%) and Delhi (13.3%) respectively. All these states contribute maximum in services and manufacturing sectors.

CONCLUSION:

The FDI trend in Indian economy is moving upward making India's one of the most promising investment destinations for most of the developed and developing nations because India is fastest growing economy among the major economies. The result of regression analysis shows that there is a strong and positive relationship between FDI inflow and GDP, making FDI inflow, a key driver for economic growth. Foreign direct investment (FDI) brings a significant transformational change in Indian economy. It has accelerated economic expansion, created jobs, aided in the transfer of technology and promoted sectoral growth.

India's FDI policy is focused on creating a more favourable environment for foreign investments through sectoral liberalisation, reforms and incentives like PLI scheme to make India as a preferred destination for foreign companies to diversify their supply chain and reduce dependency on China. By continuing to simplify the regulatory framework and improving infrastructure, India aims to attract more FDI and reap the benefits of the innovation and global integration come with foreign investment. Thus, FDI acts as a key driver of economic growth.

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