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TRENDS OF FDI IN INDIA AND RELATION BETWEEN FDI AND GDP

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ABSTRACT

FDI plays a very importance role in the development of the countries. It is also plays a importance role in the case of developing and under developing countries like as India. It is very importance for long-run development of economy. It is a source of foreign capital. It is also provided new technology for domestic market. It plays an important role in the long-term development of a country not only as a source of capital but also for enhancing competitiveness of the domestic economy through transfer of technology, strengthening infrastructure, raising productivity and generating new employment opportunities. In India, FDI is considered as a developmental tool, which helps in achieving self-reliance in various sectors and in overall development of the economy. India after adopting liberalization and globalization policy in 1991, there was a massive increase in the flow of foreign direct investment. In this paper I have tried to analyses the Foreign Direct Investment inflows in India and its relation with Indian GDP. This research study is based on secondary data.

INTRODUCTION

FDI is tool of Indian economic development which helps to makes economic stability in India. After liberalization, there was positive GDP growth in India.FDI helps to development economy by generating employment. It is also helpful for poverty elevation programs. It is also provided better technology and management tool for domestic market.

In India FDI is considered as a development tool which helps to achievement of self reliance in various sectors of Indian economy.

FDI

Foreign direct investment is an investment made by a company or an individual in one country into business interests located in another country

GDP

Gross domestic product is the monetary value of all finished goods and services made within a country during a specific period.

$$\mathbf{GDP = C + I + G + (X\text{-}M)}$$

RESEARCH METHEDOLOGY

Data collection

The study is based on secondary data. The required data has been collected from various sources like world investment reports, various websites www.rbi.org.in, www.fdi.gov.in etc. Then study is based on the time period from 2003 -2023. Graphs and table have also used when ever required.

Study period

The study is based on the time period from 2003 to 2023.

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Objectives of study

1. To study the trends and pattern of FDI in India.
2. To know the sector wise FDI in India
3. To know the GDP growth rate.
4. To know the relation between FDI and GDP.

FDI Inflows during 2003-2023 in India

The first objectives of the study are to study the trends and pattern of FDI in India and to know FDI inflows in India.

Table-1 shows the Annual Growth Rate (AGR) of FDI inflows for each and every year and. The Annual Growth Rate is calculated by using the formula:

AGR = (X2- X1)/ X1

Where, X1 = first value of variable X

X2 = second value of variable X

Table 1: Volume of FDI Period [2003-2023]

(AMOUNT IN BILLION US $)

Year	FDI	AGR %
2003	5	
2004	4.3	-14
2005	6.1	41.86047
2006	9.7	59.01639
2007	22.8	135.0515
2008	34.8	52.63158
2009	41.9	20.4023
2010	37.7	-10.0239
2011	34.8	-7.69231
2012	46.6	33.90805
2013	34.3	-26.3948
2014	36	4.956268
2015	45.2	25.55556
2016	55.6	23.00885
2017	60.2	8.273381
2018	61	1.328904
2019	62	1.639344
2020	74.4	20
2021	82	10.21505
2022	84.8	3.414634
2023	70.9	-16.3915

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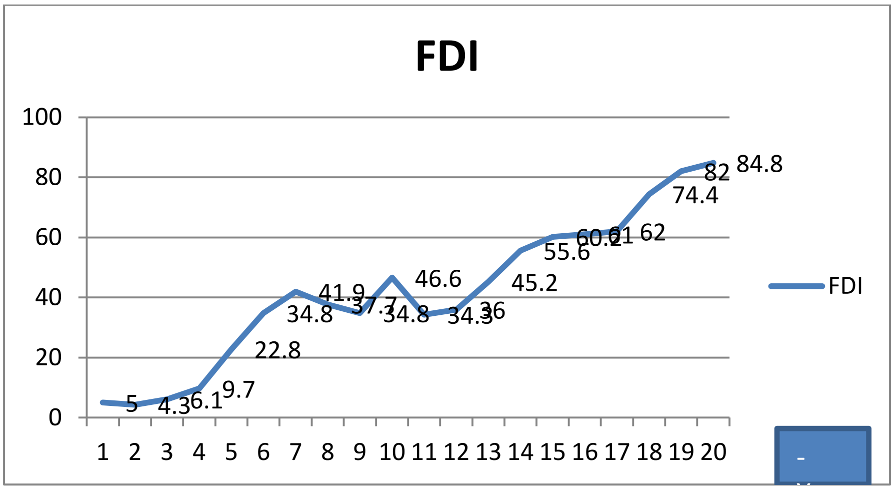
Chart 1: Trend of FDI [2003-2023]

(AMOUNT IN BILLION US $)



The above table and chart shows that FDI inflow into India before 2003 was minimal. During this period, foreign investments into India were restricted and allowed moderately in few sectors. This is mainly because of the kind of policies which the government of India has adopted over the years which includes, `inward looking strategy'; and dependence of external borrowings. In turn, the borrowings resulted in foreign debts which were preferred to the foreign investments to bridge the gap between domestic savings and the amount of investments required. In 1991, when the government of India started the economic reforms program, FDI had suddenly become important for India which was looked upon as a key component of economic reforms package. The New Industrial Policy of 1991 gave utmost priority in attracting FDI inflows. In this process, the government started opening up of domestic sectors to the private and foreign participation which was earlier reserved only for the public sector. This was followed by slow but with significant relaxation of regulatory and entry restrictions on FDI inflows.

COUNTRY-WISE FDI INFLOWS FROM, 2021 TO 2023

Table 3: Amount of foreign direct investment inflows country wise

Top Investing Countries' FDI Equity Inflow into India (US$ Million)					
Country	**FY 2021**	**FY 2022**	**FY 2023**	**Cumulative equity inflow (April, 2000-March, 2023)**	**Percentage share**
Mauritius	5,639	9,392	6,134	1,63,876	26%
Singapore	17,419	15,878	17,203	1,48,169	23%
USA	13,823	10,549	6,044	60,196	9%
Netherland	2,789	4,620	2,498	43,759	7%
Japan	1,950	1,494	1,798	38,740	6%
UK	2,116	1,657	1,738	33,875	5%
UAE	4,203	1,032	3,353	15,578	2%
Cayman Island	2,799	3,818	772	14,924	2%
Germany	667	728	547	14,138	2%

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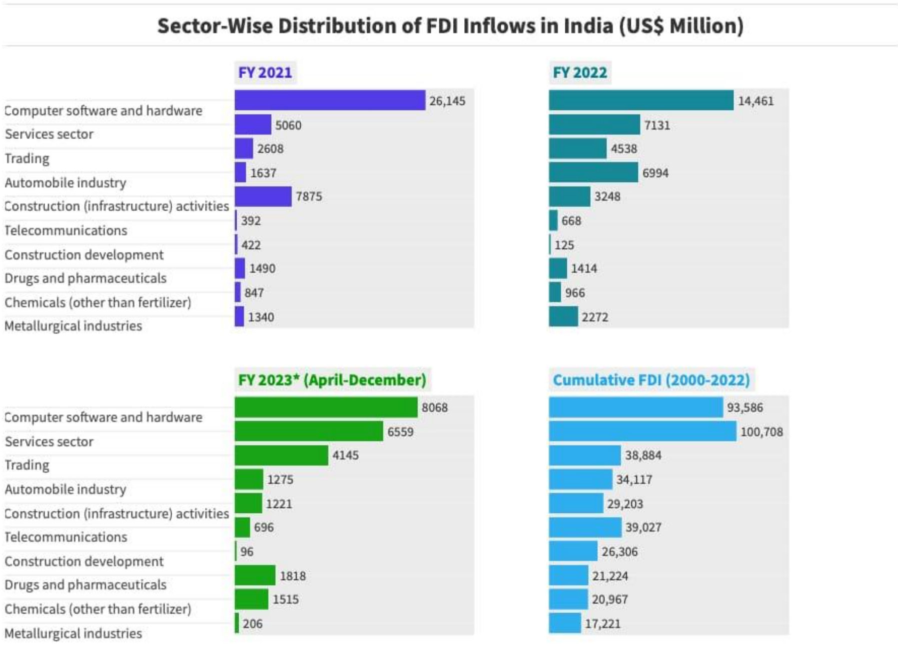
Top Investing Countries' FDI Equity Inflow into India (US$ Million)					
Country	**FY 2021**	**FY 2022**	**FY 2023**	**Cumulative equity inflow (April, 2000-March, 2023)**	**Percentage share**
Cyprus	386	233	1,277	12,644	2%

Table -3 shows that the Mauritius country has the highest foreign investor in India with 26%.Mauritius continue to be the preferred route for directing FDI in India. The reason for this is the Double Taxation Avoidance Agreement (DTAA) between India and Mauritius. There for a lot of investments are routed through this nation. India has a DTAA with about 75 countries like UK, Japan, France, Germany etc. but it is Mauritius which is the most preferred routed for FDI inflows because of low or zero corporate tax on the foreign companies incorporated there. Singapore is the second largest contributor of FDI after Mauritius in India with 23 %. USA comes in third with 9%. Nederland comes in fourth with 7%. Japan comes in fifth with 6 %.

SECTOR-WISE FDI INFLOWS

The three main sectors that receive the highest FDI are the computer software and hardware, services sector, Trading and Automobile industry sectors. It is explain by following table-



In the FY 2023, foreign investors showed keen interest in multiple sectors in India, with the highest FDI inflows seen in **computer software and hardware**, attracting investments worth US$9.39 billion. The services sector also received significant foreign investment, totaling US$8.70 billion, covering financial, banking, insurance, and business services. Additionally, the trading sector received investments worth US$4.79 billion, followed by **drugs and pharmaceuticals** (US$2.05 billion), the **automobile industry** (US$1.90 billion), chemicals (US$1.85 billion), and construction (infrastructure) activities (US$1.70 billion).

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INDIA'S GDP GROWTH RATE

Table-3 shows the trends of GDP at Current prices (amount in billions)

YEAR	GDP	AGR %
2003	618.36	
2004	721.59	16.69416
2005	834.22	15.60859
2006	949.12	13.77335
2007	1238.7	30.51037
2008	1224.1	-1.17866
2009	1366.37	11.62242
2010	1708.46	25.03641
2011	1823.05	6.70721
2012	1821.64	-0.07734
2013	1856.72	1.925737
2014	2039.13	9.824314
2015	2103.59	3.161152
2016	2294.8	9.089699
2017	2651.4	15.53948
2018	2702	1.908426
2019	2834.61	4.907846
2020	2675.85	5.671248
2021	3167.22	18.44814
2022	3346.11	5.648171
2023	3638.49	8.737908

GDP at Current prices (amount in billions)

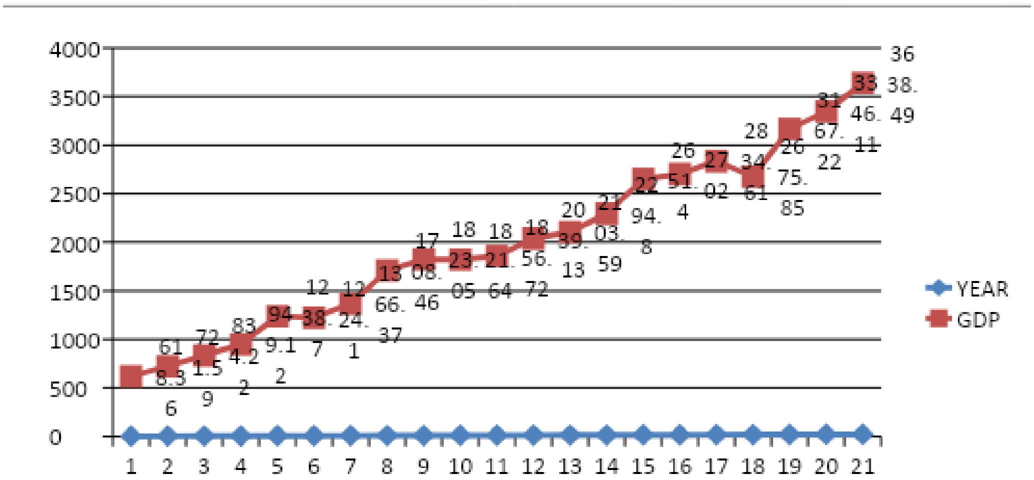
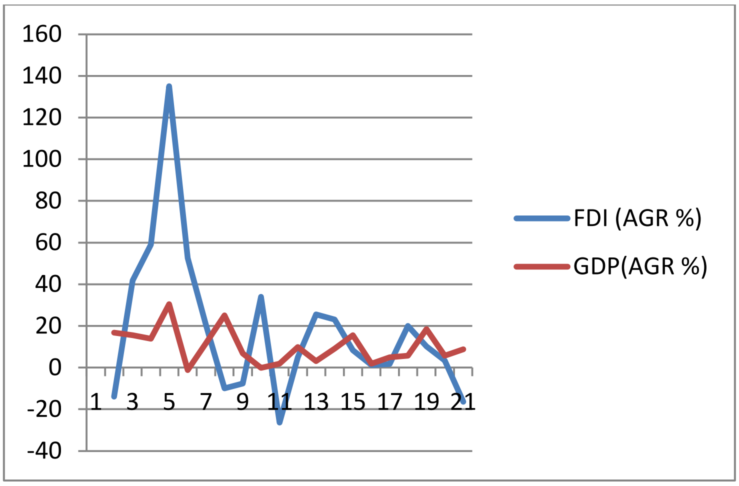


Chart 7: Relation between FDI and GDP



Above figure shows that, there is no direct relation between FDI and GDP.

FINDINGS

- India is one of the most favorable investment destinations to invest in.
- Some sectors of the economies are deprived from the investment like Defense, Atomic Energy, retail, Agriculture there some kind of reforms are required in this regard.
- The most dominated area attracting FDI is the computer software and hardware sector.
- There is no direct relation between FDI and GDP.

Advantages of FDI

- **Increased Employment and Economic Growth**
- **Human Resource Development**
- **Provision of Finance & Technology**
- **Increase in Exports**
- **Creation of a Competitive Market**

CONCLUSION

Foreign Direct Investment (FDI) as a strategic component of investment is needed by India for its sustained economic growth and development through creation of jobs, expansion of existing manufacturing industries, short and long term project in the field of healthcare, education, research and development.

The paper tries to decide empirically, the relationship between foreign direct investment (FDI) and economic growth in India using annual data over the period from 2003 to 2023. The result shows that FDI has not contributed much to the economic growth in India for the time period 2003 to 2023, therefore it is imperative for the government of India to make a policy for attracting FDI in India. The role of FDI in this process is, by virtue of its impact on productivity and growth, to generate the resources needed to fund the government-led programs that improve social safety nets and provide basic social services. Basic services such as water and energy can also benefit from reliance on foreign investors. It is thus imperative for the national governments to create the pre-conditions for FDI to

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flow in and work its wonders. A liberal and competitive investment climate creates the basis growth in the host economy, but improvements will only occur if the domestic actors are capable of responding to the new incentives. The key policy measures are thus to improve the education and infrastructure to increase the FDI. India would do better by focusing on improving infrastructure, human resources, developing local entrepreneurship, and conditions favorable for productive investments to increase the process of development.

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