

# A Study on Trend of FDI in India and its impact on Indian GDP

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## ABSTRACT

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. The objective of this study is to analyse the trend of FDI in India and to analyse the impact of FDI on Indian GDP during 2014 -15 to 2018 -19. 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.

## Keywords

Foreign Direct Investment, GDP, Economic Growth, Trend of FDI

## Introduction

Foreign Direct investment (FDI) is one of the most striking features of globalised world today. Today, in the globalised world there is exponential growth of FDI in developed and developing countries. FDI flows are rising faster than all other investment. Foreign Direct investment (FDI) has become very important investment nowadays. It involves transfer of resources and acquisition of control. FDI creates employment, transfers technology. FDI has become a battleground in the emerging markets. The main objective of allowing FDI is to achieve high economic growth to grab opportunities of technological upgradation and to access global managerial skills and practices. FDI is a critical driver of economic growth and a major source of non-debt financial resources for the economic development of India. FDI plays a significant role in the economic growth of the country and plays a very important role in the economic development of developing countries like India.

Today, FDI has become an instrument of International economic integration. It was found that FDI has emerged in India since the British rule but its presence was negligible. But when India got the independence, FDI became a part of its national interest. FDI is playing an important role in economic growth for India since 1991, when the national economy opened to global trade.

Due to the favourable Business environment and the favourable government policy of India, foreign capital keeps flowing into the country. FDI inflows have been increased in India to rise to peaks till 2008.

## Routes of FDI in India:

### 1) Automatic route :

Under Automatic route, FDI is allowed without prior approval of the Reserve Bank of India or Government in sectors as specified in the consolidated FDI policy as issued by the government of India from time to time.

### 2) Government Route :

Under Government Route, those FDI are allowed which are not covered under the automatic route.

## Review of Literature:

1. **Vinay Kumar (2012)** in his study of 'Trend of FDI in India and its Impact on Economic Growth' that the flow of FDI in India is showing a positive trend and is a very positive signal for the economy.
2. **Syed Azhar and K.N. Marimuthu (2012)** in his study of "An overview of Foreign Direct Investment in India" found that, FDI accelerates economic growth through technology transfer and employment generation.

3. **Netrja Mehra ( 2013 )** in his study of “Impact of foreign Direct Investment on Employment and Gross Domestic Product in India” used the A multiple – regression model to analyse whether FDI has an impact on the employment and GDP in India and found that FDI plays a significant role in generating employment on economic development.
4. **Majid Mahmoodi and Elahe Mahmoodi (2016)** the results of short-run causality in Asian developing countries indicated bidirectional causality between exports and economic growth. Furthermore, there is evidence of long-run causality from export and FDI to economic growth and long-run causality from economic growth and export to FDI for both of the European and Asian developing panels.
5. **Tilak Raj and Ashima Pahwa (2018)**, it was reveals that the each country tries to bring more and more FDI in their country which will later bring economic growth of the country. For attracting more and more inflows of foreign investment govt. has to work on some aspects such as improvement of infrastructure, liberalized FDI policy, political stability etc. In this regard IFC (International Finance Corporation), the investment arm of the World Bank Group, is planning to invest about US\$ 6 billion through 2022 in several sustainable and renewable energy programmes in India.
6. **Dr Ampu Harikrishnan** and Shivani (2018) funds gained by the way of FDI, this might be done by investing the same in the international projects, realization of the FDI amounts as Electronic copy available at: <https://ssrn.com/abstract=3598037> early as possible and that too in terms of real time realization. It stated more thrust should be give on the development of the bureaucracy i.e. it should become more responsive. Steps might be taken to curb corruption from the lowest level of the economy.
7. **Abidhusain G. Kadiwala (2019)** researcher finds the correlation coefficient of variables is

0.675 which is positive and the present result of correlation coefficient can be interpret as a good indicator. It found that the changes occurred in FDI affect the GDP of country which means that increase in FDI shows the positive impact on the GDP of India. Thus, Foreign Direct Investment is healthier for Indian economy in term of Gross Domestic Product.

8. **Dr. Dhadurya Naik M** (An empirical study on Foreign Direct Investments Impact on Economic Growth of India found that FDI has a significant impact on the GDP of Indian Economy.

### Objective of the study

1. To analyse the trend of FDI in India.
2. To analyse the impact of FDI on Indian GDP

### Research methodology

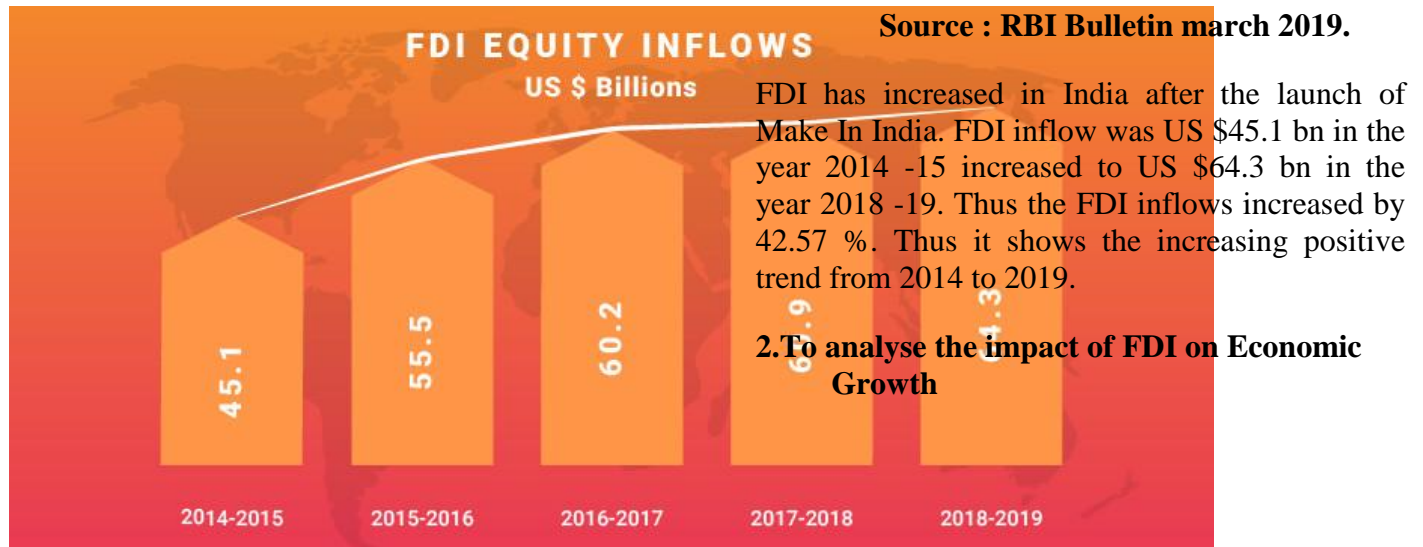
**Data Source** :Secondary Data is used for the research. Secondary data has been collected from various secondary sources such as published reports RBI, department of Industry Policy and Promotion.

**Research Design** :Descriptive Research design is used for the study.

### Data Analysis :

1. **To analyse the trend of FDI equity inflow in India**

The trend of FDI inflows shows the positive trend from 2014 – 2015.



**Table : 1 Shows the FDI inflows and its impact on GDP in India.**

| <u>YEAR</u>      | <u>TOTAL INVESTMENT</u> | <u>GDP</u>      | <u>FDI GROWTH RATE IN %</u> | <u>GDP GROWTH RATE IN %</u> | <u>FDI AS % OF GDP</u> |
|------------------|-------------------------|-----------------|-----------------------------|-----------------------------|------------------------|
| <u>2014 -15</u>  | <u>449072</u>           | <u>12467959</u> | <u>181.29</u>               | <u>10.99</u>                | <u>3.602</u>           |
| <u>2015 -16</u>  | <u>208579</u>           | <u>13771874</u> | <u>-53.55</u>               | <u>10.46</u>                | <u>1.515</u>           |
| <u>2016 -17</u>  | <u>289394</u>           | <u>15362386</u> | <u>38.75</u>                | <u>11.55</u>                | <u>1.884</u>           |
| <u>2017 – 18</u> | <u>337684</u>           | <u>17095005</u> | <u>16.69</u>                | <u>11.28</u>                | <u>1.975</u>           |
| <u>2018 -19</u>  | <u>212179</u>           | <u>19010164</u> | <u>-37.17</u>               | <u>11.20</u>                | <u>1.116</u>           |

Source : Handbook of Statistics on the Indian Economy 2018 -19

Table 1 Shows that the FDI inflows in India have increased at a higher rate from Rs. 449072 in the year 2014 – 15 to Rs. 212179 in the year 2018 - 19. Highest growth was recorded in the year i.e. 181.29 % and lower in the year 2015 -16 i.e. 53.55 %. GDP growth rate was highest in the year 2016 -17 i.e. 11.55 % and the GDP growth rate was lower in the year 2015 -16 i.e. 10.46 %. It found that the 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 %. It shows that after 2014 -15 there was a fall in the FDI as a percentage of GDP.

### Findings :

1. positive trend from 2014 - 2019. It is a very positive signal for Indian Economy.
2. During study , I found that Developing and developed countries are the most favourable destination and the FDI trend is increasing in developing and developed countries.
3. During study , I found that FDI has an positive impact on the economic growth /GDP of India.

### Conclusion :

The Trend rend of FDI in India is upward speedily. Over the period of time India has become the most favourite destination for the FDI for most of developed and developing countries. The growth rate of FDI in India was not so much attractive but nowadays the trend of FDI in India is increasing speedily. The impact of FDI on economic growth of India is very significant.

This study shows that, 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.

GDP growth rate was highest in the year 2016 -17 i.e. 11.55 % and the GDP

growth rate was lower in the year 2015 -16 i.e. 10.46 %. It found that the FDI as percentage of GDP was highest in the year 2014 -15 i.e. 3.062 % and lower in the

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