

TRENDS AND INFLOW OF FOREIGN DIRECT INVESTMENT IN INDIA

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Abstract: Foreign Direct Investment is an investment made by a company or entity based in one country, into a company or entity based in another country. The investing company may make its overseas investment in a number of ways - either by setting up a subsidiary or associate company in the foreign country, by acquiring shares of an overseas company, or through a merger or joint venture. In India FDI inflow made its entry during the year 1991-92 with the aim to bring together the intended investment and the actual savings of the country. To pursue a growth of around 7 percent in the Gross Domestic Product of India, the net capital flows should increase by at least 28 to 30 percent on the whole. The researcher collected data from the year 2018-2018 from Reserve bank of India Annual report. The tools used for the analysis is Annual growth rate and correlation. Thus, the paper mainly focuses on trend and inflow of foreign direct Investment in India.

Key Words: Foreign Direct Investment, Gross domestic Product, Investing company.

1. INTRODUCTION:

Foreign Direct Investment is an investment made by a company or entity based in one country, into a company or entity based in another country. The investing company may make its overseas investment in a number of ways - either by setting up a subsidiary or associate company in the foreign country, by acquiring shares of an overseas company, or through a merger or joint venture. An increase in FDI may be associated with improved economic growth due to the influx of capital and increased tax revenues for the host country. Host countries often try to channel FDI investment into new infrastructure and other projects to boost development. Greater competition from new companies can lead to productivity gains and greater efficiency in the host country and it has been suggested that the application of a foreign entity's policies to a domestic

Subsidiary may improve corporate governance standards. Investment or creation of capital is a vital determinant of economic growth. In general, Investment may lead to the creation of Physical capital goods, finance and human capital. Foreign direct Investment (FDI) into India may decline sharply in 2020 because of the Impact of the Corona virus pandemic and the consequent lockdown measures, supply chain disruptions and economic slowdown even as FDI inflows to Asia's third largest economy Jumped over 20% to \$ 51 billion in 2019, according to the United Nations Conference on Trade and development (UNCTAD). According to the latest world Investment report 2020 by UNCTAD India Jumped from 12th position in 2018 to 9th position in 2019 among the world's largest FDI Recipient. According to the report UNCTAD said India's economy could prove the most resilient in the region. "FDI to India has been on a long term growth trend". Positive, albeit lower, economic growth in the post-pandemic period and India's large market will continue to attract market-seeking investments to the country," it added.

1.1 Statement of the problem:

Foreign Direct Investment which is inward is a typical form of what is termed as "inward Investment". Here investment of foreign capital occurs in local resources. The factors propelling the growth of inward FDI comprises tax breaks, relaxation of existent regulations, loans on lower rates of interest and specific grants. The idea behind this is that, the long run gains from such a funding far out weights the disadvantage of the income loss incurred in the short run. Flow of inward FDI may face restrictions from factors like restraint on ownership and disparity in the performance standard FDI which is outward is also referred to as "direct investment abroad". In this case, it is the local capital which is being invested in some foreign resource. Outward FDI may also find use in the import and export dealings with a foreign country. Outward FDI flourished under govt backed insurance backed insurance at risk coverage. **Therefore, the study is to analysis of the trend and inflow of foreign direct Investment on the Indian Economy.**

1.2 Review of Literature:

Jack M Mintz and Alfons J Weichenrieder (2010)¹ categorically makes it a point to state that, with inbound investments, different considerations are involved since interest deductions taken to finance investments in the host country are related to in bound investment largely owned by foreign companies. The aim of interest limitations is to protect the host country corporate tax base although the economic cost is to potentially reduce foreign investment flows.

Azam and Lukman (2010)² studied the trends and importance of FDI inflows to Pakistan, India and Indonesia during for the period ranging from 1970 to 2005 and also analyzed the factors responsible for FDI inflows to these countries. The economic determinants effects on FDI inflows to these countries were estimated using Log linear regression model and the method of least squares. The market size, external debt, domestic investment, trade openness, and physical infrastructure are the important economic determinants of FDI inflow to these countries as revealed by the models. The economic determinants of India matched with that of Pakistan excluding two determinates (viz, trade openness and government consumption). The results of Indonesia were not matched with the results of Pakistan and India. It was suggested by authors that to enhance FDI inflow into Pakistan, India and Indonesia, economic and political stability, provision of infrastructure, peace and security, law & order situation, encourage domestic investment, curtailment of external must and equal importance is be given to appropriate monetary and fiscal policy.

Abaukaka Thomas Onimisi (2014)³ had made a research on “Foreign Direct Investments and Employment Generation Nexus in Nigeria” The relationship between foreign direct investment and job generation in Nigeria using various linear information regression model covering the 2002-2012 period. In order to define the connection empirically, some factors are integrated into the econometric system, including the Employment unemployment rate). Review) as the dependent variable whereas the explanatory variables are FDI (proportion of the nominal value of FDI in Nbn), GDP (annual GDP growth rate) and the nominal interest rate the study recommends, inter alia, that the government establish a mechanism by which the research should be conducted.

2. Objectives of the study:

The main objectives of the study is to analyze the trends and inflow of foreign direct investment in India.

3. Research Methodology:

The study is based on secondary data. The required data on FDI inflows have been collected from World Investment Report published by United Nations conference on Trade and Development (UNCTAD). However, the report on currency and Finance and Handbook of statistics on Indian Economy published by the Reserve Bank of India also have been used as supplementary sources. The study is a modest attempt to identify the impact of FDI (Foreign Direct Investment) on economic growth in India with special reference to Tamil Nadu State based on data available from secondary sources such as Statistical Handbook, RBI Bulletin, etc. The economic indicators considered in the present are: GDP (Gross Domestic product), Agriculture output of Pulses and Cereals (Area sown, Total Production and Productivity in terms of kilogram per hectare), Electricity Generation and consumption, Industrial output in the state, MSME’S sector, Banking sector etc. The period of study for this research has been taken as 2008 to 2018.

4. Data Analysis & Interpretation:

The accelerated growth of outward foreign direct investment from the emerging countries has brought significant changes not only to their national economies, but also to the global economic scenario. Foreign direct investment has been associated with improved economic growth and development in the host countries which has led to the emergence of global competition to attract FDI .India Jumped from 12th position in 2018 to 9th in 2019 in the list of the world’s largest foreign direct recipient. Global foreign direct investment flow are forecast to decrease by up to 40% in 2020, from their 2019 value of \$1.54 trillion. The table 1.1 shows that trends of FDI in India.

Foreign Direct Investment in Tamil Nadu and India:

Table 1.1
Foreign Direct Investment in Tamil Nadu and India

(Rs. In Crore)

Year	FDI in Tamil Nadu	FDI in India	Gross NPA ratio
2008-09	7757 (-)	41873(-)	18.5
2009-10	3653 (-52.09)	37745 (-9.85)	9.7
2010-11	6115 (67.3)	34647 (-8.20)	17.6

2011-12	6711 (9.74)	45556 (31.48)	14.7
2012-13	15252 (127.2)	34298 (-24.71)	44.5
2013-14	12595 (-17.42)	36046 (5.09)	34.9
2014-15	23361 (46.0)	45148 (25.5)	51.7
2015-16	29781 (27.4)	55457 (22.83)	53.7
2016-17	14830 (-50.2)	60220 (8.58)	24.6
2017-18	22354 (50.7)	60974 (1.25)	36.6
2018-19	18164 (-18.74)	64375(5.58)	28.2
Mean	14597.55	46939.91	30.55
SD	8279.11	11378.91	15.06
CV	56.71	24.24	49.54
CGAR	8.02	3.98	3.90

Figure 1.1 Foreign Direct Investment in Tamil Nadu and India

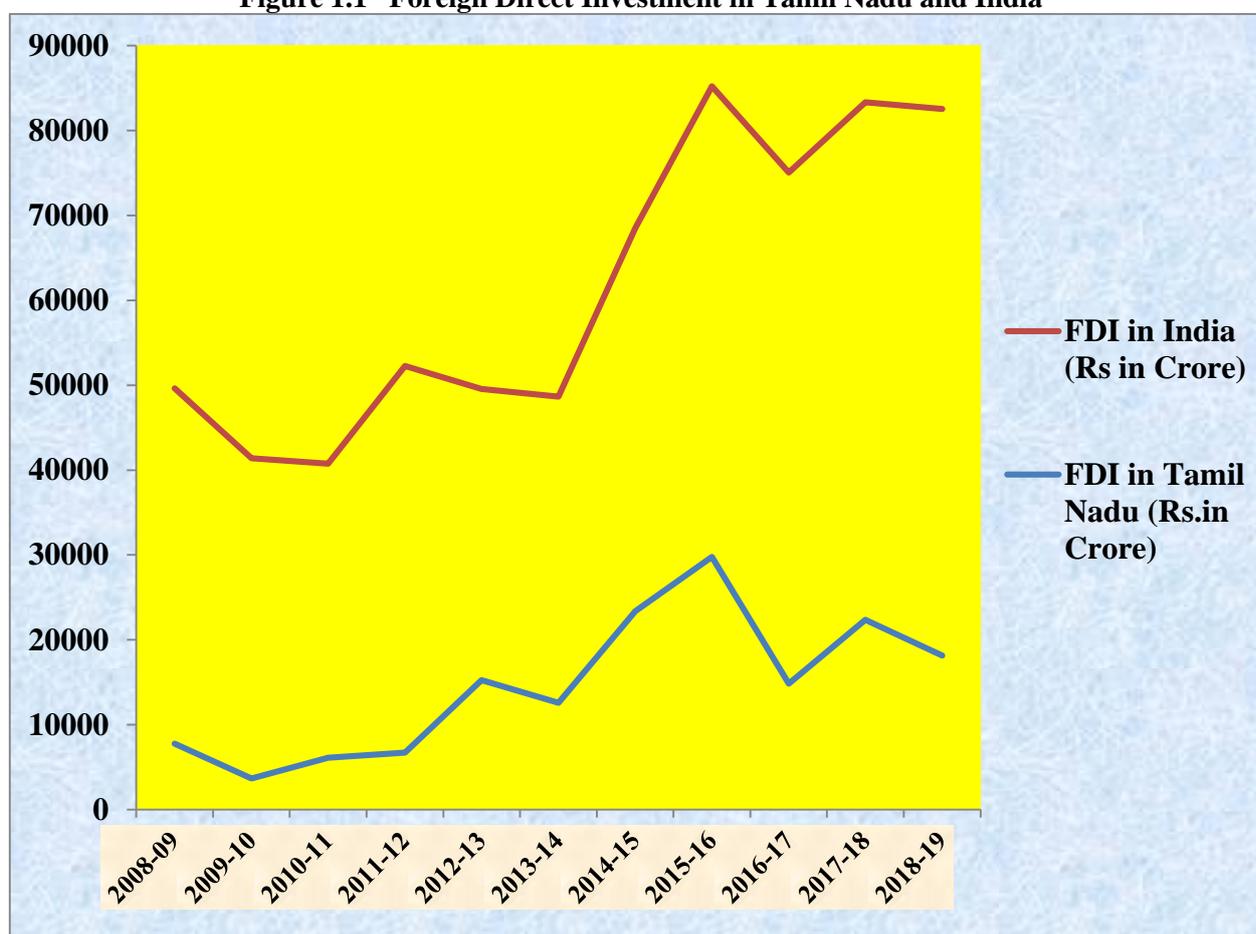


Table 1.1 is portrayed with results of trend and growth analysis for FDI in Tamil Nadu and also in national level. As portrayed in the table, FDI in Tamil Nadu, Rs. 7757 crore in 2008-2009 has shown a declining trend in 2009-10. Between 2009-10 and 2012-13, it exhibited an upward trend and in the year 2013-14 again it declined to 12595 crore. In 2014-15, it jumped to Rs. 23361 crore from Rs. 12595 crore in 2013-14 and in 2015-16 again it showed an upward trend and in the next year 2016-17 it fell down 14830 crore. In 2017-18 it again rose up to 22354 crore and in the year 2018-19 it was positioned at 18164 crore. Over the period 10 years under study, the FDI in Tamil Nadu had significant growth rate of 8.02 percent when compounded annually. The FDI in India has also shown a significant positive growth rate of 3.98 but with crisscross trend. Further, FDI in India was less volatile compared to that of Tamil Nadu (CV =56.71 for Tamil Nadu compared to 24.24 for Indian). In India 2008-09 to 2017-18 the growth rate has increased from -9.85 to 5.58, therefore there is positive growth rate. But in Tamil Nadu there is tremendous decreased in 2009-10 to 2017-18 the growth rate has decreased from -52.09 to 18.74.

Table 1.2 Relationship between Foreign Direct Investment India and Tamil Nadu

Correlations			
		FDI in Tamil Nadu	FDI in India
FDI in Tamil Nadu	Pearson Correlation	1	.586
	Sig. (2-tailed)		.058
	N	11	11
FDI in India	Pearson Correlation	.586	1
	Sig. (2-tailed)	.058	
	N	11	11

Source: Compiled data from above table using SPSS 2.0

The correlation between foreign direct Investment in India and Tamil Nadu is $r = 0.586$ and significant values is **0.58**. This indicates that foreign direct Investment in India and Tamil Nadu are independent to each other. So we can accept null hypothesis and reject alternative hypothesis. There is no significant relationship between foreign direct Investment in India and Tamil Nadu. Here the value of r is 0.811, So it is considered to be a strong correlation.

5. FINDINGS OF THE STUDY:

- In India **2008-09 to 2017-18** the growth rate has increased from -9.85 to 5.58, therefore there is positive growth rate. But in Tamil Nadu there is tremendous decreased in **2009-10 to 2017-18** the growth rate has decreased from -52.09 to 18.74.
- In **2014-15**, it jumped to Rs.23361 crore from Rs. 12595 crore in 2013-14 and in 2015-16 again it showed an upward trend and in the next year 2016-17 it fell down 14830 crore. In 2017-18 it again rose up to 22354 crore and in the year 2018-19 it was positioned at 18164 crore. Over the period 10 years under study, the FDI in Tamil Nadu had significant growth rate of 8.02 percent when compounded annually.
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6. SUGGESTIONS:

It is advised to encourage the FDI inflows into India for the purpose of providing better employment opportunities and at the same time, there is a need for better improvement in Tamil Nadu.

7. CONCLUSION:

Foreign direct investment is a investment produced by a company or person in a nation of business interest situated in a growing nation in India. Thus, the article focuses on descriptive elements of the FDI inflows over the past ten year's performance. India was one of the developing countries and even during the recession was able to demonstrate favorable GDP development and it also found that FDI inflows in India show positive trend over the period under study compared to Tamil Nadu. The correlation analysis indicates that there is very high correlation between FDI in India and Tamil Nadu.

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